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SPRINGFIELD, VA. 22161

# China

JPRS-CAR-88-079

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14 DECEMBER 1988

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## Survey Finds Widespread Support in CPPCC for Press Reform

40050059 Beijing XINWEN ZHANXIAN [NEWS FRONT] in Chinese No 8, Aug 88 pp 7-8

[Article by Zhou Jiezhai 0719 3381 2298: "CPPCC Wants a Freer and More Open Press"—first paragraph is editor's note]

[Text] The Institute of Journalism of the Chinese Academy of Social Sciences and the Capital Journalism Society conducted a survey on press reform among all members of the Seventh Chinese People's Political Consultative Conference [CPPCC] during one of its meetings early last April. A total of 472 valid questionnaires were returned. A preliminary report on the results of the survey appeared in an article by Chen Chongshan [7115 1504 1472] and Lu Pingbo [0712 1627 3134] published in page 2 of RENMIN ZHENXIE BAO on 5 July and Issue No 3 of XINWEN XUEKAN. We publish an excerpt of the article below for public reference.

Of the 472 CPPCC members who returned a valid questionnaire, 62 were women, 34 were members of minority nationalities, 235 were CPC members, 80 belonged to democratic parties, 4 were members of the Communist Youth League, 118 had no party affiliation, 35 had a dual identity in that they were members of a democratic party as well as the CPC, 6 were members of the CPC Central Committee, 1 was a member of the Central Discipline Inspection Commission, 43 were national leaders of the democratic parties, 22 were national leaders of people's organizations, and 80.1 percent had post-secondary qualifications. They took the survey very seriously; their written comments ran to more than 20,000 characters.

### 1. At present news reporting does not tell the public as much as the latter would like to know. It is hoped that it would become more open.

Citing "too many restrictions," 63.2 percent of the members expressed dissatisfaction with the degree of openness in news reporting today, which they thought is not open enough. On the other hand, 27.5 percent and 1.5 percent were satisfied or very satisfied, respectively. A member wrote, "No country in the world would ignore national interests and tell the public everything. But the situation in China is that they tell the people far too little." A leader (Mongol nationality) of a democratic party pointed out, "It is better for people to hear something through the official channel than as hearsay. That way, the people would rally around the government more. When the press reports in a timely and objective way, it enhances its own prestige. To do otherwise would only create more listeners for the 'Voice of America.'" Another member (a CPC member) wrote, "I came across a report on personnel arrangements made by the 13th National Party Congress [NPC] in a foreign newspaper last summer, which mentioned some names I had never

heard of before (that is, names of people rarely mentioned at home.) Later I found that the report was completely correct. This practice of exporting news and then re-importing it must be stopped through reform." A female member wrote, "News reporting should be more open to truly reflect objective realities and attack the current wrongs in society. The press should be a forum where the people participate in and discuss politics. We should increase political openness through press reform."

The argument that "more open reporting will affect social stability" was rejected by 77.1 percent of the respondents. One member, a national leader of a democratic party, wrote, "The CPC and the people's government are wholeheartedly devoted to serving the people; they do everything that truly benefits the people, refuse to do anything that would hurt the people, and correct whatever mistakes they have made. With truth on our side, we will earn the support of the masses as long as we reason things out with them clearly. Do not be afraid of the masses or the attacks of hostile elements. Let the masses judge opposing points of view. Trust their consciousness."

The 13th NPC proposed the following: "Let the people know the important circumstances. Let them discuss major issues." This should be the yardstick for measuring the degree of openness in news reporting. Sometimes, however, society and even the press itself cannot reach a consensus on whether something should be made public. Asked to comment on this, 89.2 percent of the respondents agreed that "major cases involving unhealthy party trends" should be made public; 84.4 percent believed the people should be told of the "difficulties in reform and opening to the outside world"; 84.1 percent supported the reporting of "sudden major disasters and accidents"; 81.1 percent called for the reporting of "newly emerging negative social phenomena"; 75 percent thought "differing opinions on a piece of legislation under preparation should be reported"; 74.4 percent supported the reporting of "serious mistakes committed by party and government leaders"; and 68.4 percent and 69.9 percent thought "rebellions" and "major unpleasant events in friendly nations," respectively, should be covered. Although 57 percent of the members thought that "reasons for personnel changes among party and government leaders" should be reported, 28.6 percent thought otherwise, saying there was no absolute need for this. Asked whether "the process in which the party or government arrives at a major decision should be made public," 53.2 percent answered affirmatively, 32.7 percent negatively.

In general, an overwhelming majority of the respondents supported greater openness in news reporting. A CPPCC member who was on the CPC Central Committee wrote, "To bring about a free press, I propose that the Chinese press seek truth from facts and stop imposing too many restrictions on the reporting of certain events. People and events which are of major importance and touch

upon public interests should be more extensively covered, as should the masses. Otherwise, the people would lose confidence in press reform and press freedom would become mere empty talk. This will undermine the role of the press as an instrument of propaganda."

**2. It is hoped that the media would be more reflective of public opinion and strengthen supervision by public opinion.**

To 91.1 percent of the respondents, the news media should be a "forum where the people can discuss politics." On the other hand, 75 percent felt that the mass media are not adequately or fully reflecting the people's views in the social dialogue today. One member proposed that the news media transform themselves from a tool with which the party and government molded opinion into an effective means with which the people take part in and discuss politics and exercise supervision by public opinion. News media should reflect public opinion, take the initiative to guide the people's democratic consciousness, and play an important role in the nation's democratization. One member proposed, "What we need to do right now is to organize seminars on democracy and freedom in order to promote democracy, on the one hand, and enable more people to understand socialist democracy, particularly its gradual, incremental nature, on the other. We should also educate and enlighten those leading cadres who fear democracy and are dictatorial so that they will respect the people's socialist democracy and freedom conscientiously. That way we can realize the superiority of the socialist system."

On the question of open criticism, 93.6 percent of the respondents agreed that "in accordance with the principle that everybody is equal before the law, the press should criticize all negative phenomena, irrespective of ranking." A member of the Man nationality hoped that the press would "use the open tactics of news reporting to supervise unhealthy trends and contribute even more to shaping the nation's future destiny."

**3. It is hoped that the press would do more to improve itself.**

Press coverage of the "two congresses" was well received by the respondents, with 80.9 percent expressing satisfaction, but only 3 percent said they were very satisfied. One member wrote, "This meeting was completely open and highly visible to the public. It has been well received at home and abroad. It educated the masses and helped further reform and opening to the outside world. We should review the experience and expedite press reform." A hope was expressed by 91.2 percent of the respondents that the press would keep up and further the good work it did in reporting the "two congresses" openly.

However, the respondents did not rate the comprehensiveness of the coverage very highly; only 1.5 percent considered the coverage very comprehensive, 61.9 per-

cent thought it was relatively comprehensive, and 17.9 percent said it was not very comprehensive or incomplete.

Members criticized one-sided and untruthful reporting and the habit of the press to report only the good news but not the bad. One member wrote, "Holding back unpleasant information; untruthful reporting; unscientific data; lavish praises; biased comments, complimentary and otherwise; and the failure to report what should be reported—all this makes us distrust the press." Statistically, only 6 respondents, or 1.3 percent, professed complete faith in the press, 68.2 percent said the press is essentially trustworthy, 19.7 percent thought the press is not very trustworthy or untrustworthy, and 10.8 percent were not sure. Many respondents were critical of the failure of the news media to make corrections even when they know they have made a mistake. One member wrote, "To be popular among members of the public, a newspaper must not be concerned only with short-term behavior. It must also build up a reputation among the people."

Many members criticized the ways of certain reporters. Some members from the scientific and technological community attributed untruthful reporting involving scientific and technical achievements and academic debates largely to ignorant reporters not humble enough to seek advice. They believed that scientific reporting must be reviewed by experts. Asked whether "the editorial department should decide what is to be reported," 21.8 percent answered negatively mainly because some reporters are of such a poor caliber as to be unreliable. Many members advised the press to take pains to improve itself. One member pointed out, "Press work must be reformed and the caliber of journalists must be improved. Journalists must be upright, fair-minded, and principled and not engage in unhealthy practices." A member who was on the CPC Central Committee wrote, "In China, reform is the trend of our time. The press must stand in the forefront of reform and opening to the outside world, constantly urge the people on, expose the dark side of society extensively, and give the green light to reform and economic vitalization. In particular, journalists must stay away from leaders given to flagrant interference and develop the concept of people's reporters working for the people. Practice proves that only individuals who speak up for the people and courageously devote themselves to journalism are the real friends of the people. As for those who fabricate stories and spread untruths, please step aside."

**4. It is hoped that a "press law" protecting socialist press freedom will be unveiled soon.**

To 83.3 percent of the respondents, the purpose of a Chinese press law is mainly to protect socialist press freedom, but 10.8 percent disagreed, and 6.8 percent gave no response.

Concerning the preparation of a "press law," 88.5 percent of the respondents thought that a draft law should be published in the news media so that the public could discuss it, 4.8 percent thought otherwise, 1.7 percent were not sure, and 4.9 percent gave no response. Of the total respondents, 49.2 percent proposed that the law be considered and adopted by the National People's Congress, 42.2 percent thought it should be considered and adopted by the standing committee of the National People's Congress, and 8.7 percent gave no response. One member wrote, "The formulation of the press law is a major event that involves the exercise by all people of a constitutionally stipulated democratic right. It should be regarded as a basic law to be approved by the National People's Congress." Another member wrote, "Like a citizen's freedom of speech, press freedom should be written into law. Originally I thought the press law should be adopted by the standing committee to speed things up. Then it occurred to me that units and individuals that may be criticized, exposed, and informed against all have 'rights,' so I now think it should be adopted by the National People's Congress. I think a press law is what everybody wants. The case for it is clear. Provided there is public discussion, a good 'press law' is only a matter of time."

Judging from the respondents' written comments, they had high hopes for press reform and the adoption of a press law. A member born in 1952 wrote, "No press reform, no freedom of speech. No freedom of speech, no freedom of thought. No freedom of thought, no real liberation. No real liberation, no liberation of productive forces and social progress and prosperity. Let us hope that press reform would quicken its pace." Another member, a 44-year-old intellectual, called on society to "treat press reform as something that would 'enlighten the nation and serve as its very foundation' because without true press freedom, there can be no true democratic supervision. Nor will we be able to improve the cultural level of the people and cadres in those circumstances." He considered a "press law" a "basic law of the land and the cornerstone of the nation."

**New Ideas on Ways To Solve Educational Funds Shortage**  
40050057a Beijing LIAOWANG [OUTLOOK] in  
Chinese No 40, 3 Oct 88 pp 15-16

[Article by Hai Na Si Yang 3189 4780 1835 3152: "New Thinking on Educational Funding Emphasizes Diversification"]

[Text] Low pay for teachers and the trend among students to "go into business" are some of the problems that have constantly bedeviled China's academic community. After thorough studies, the government agencies concerned have recently come up with a new set of ideas.

**How To Solve Educational Fund Shortage**

In the opinion of most institutions of higher education, although educational spending has gone up in the past few years, it has not kept pace with inflation and increases in student and faculty subsidies. Consequently, "personnel costs" have come to account for 50 percent of the funds spent on a college or university, as much as 81 percent at some institutions such as the Beijing Foreign Languages Institute. In addition, the institutions must pay for capital construction, water and electricity, and miscellaneous expenses. Xiamen University is even responsible for paying special economic zone subsidies. How is this problem to be solved?

Under the new approach now being considered, educational spending is to be divided into two parts: personnel costs, which will come from central and local government appropriations, and operating expenses and capital construction spending, which will be financed primarily by various educational taxes and tuition, supplemented by incomes from institutionally operated enterprises and services as well as funds raised in society.

Many institutions of higher education have pointed out that as power is delegated and the commodity economy develops, there will be more money at the disposal of enterprises. Education, therefore, should rely more on enterprises. Zhang Xiaowen [1728 1324 2429], vice president of Qinghua University, said, "China should adopt policies to attract enterprises to support education." Shen Shituan [3088 1102 0957], president of Beijing Aeronautics University, said, "In the U.S., the National Aeronautics and Space Administration gives 10 percent of its funds to universities and colleges to finance 10 research projects, noting that such investment can be recouped if only two projects succeed. Even if the projects fail, a number of people at least will have received some training."

**Determining the Ratio of Educational Spending Scientifically**

A typical view in the higher educational community in China is that it is imperative that government educational spending be legally fixed at a certain appropriate percentage of the national economy.

The basic thinking is that under normal circumstances, educational spending should not be less than 15 percent of total expenditures in the budget at the national level or 20 percent at the provincial or autonomous regional level. Provinces, autonomous regions, and municipalities directly under the central government should be authorized to decide the percentage of educational spending for each county (city) in accordance with the principle that educational spending should be substantially increased. Educational spending in the budget should be raised to 4 percent of the gross national product, which is the case in developing countries.

Many institutions of higher education believe that the key to allocating educational spending scientifically as in the example above is genuine government commitment to education. Cao Zeyi [2580 3419 3015], president of Huaxi Medical University, said that the government is really not so poor that it cannot spend more on education. If this were the case, one would be at a loss to explain where the billions of yuan now being spent on all kinds of construction projects came from. Regrettably, some provinces have failed to give to education the money saved by scrapping some building projects.

### Widen the Channels of Educational Funding

Traditionally education was fully financed by government appropriations, a practice that reform has proved to be unworkable. Consequently, it is generally agreed in the higher educational community that a major topic in solving educational funds shortage is to review the composition of educational funds and find possible new channels of funding.

There are mainly four aspects to the new approach: - raise the rate of the existing urban educational surcharge and authorize provinces, autonomous regions, and municipalities directly administered by the central government to determine the rate within 1 to 3 percent. The rural educational surcharge should be replaced by a rural educational tax payable at 2 percent by every individual earning more than 200 yuan. A township social educational tax should be introduced to be paid by every individual at 2 percent of his income. A capital construction educational tax also should be introduced payable at 5 percent of total annual capital construction investments by all capital construction projects except key national projects and those in energy, communications, agriculture, and education. The above-mentioned educational surcharges and taxes should be collected by the tax departments and deposited in a special account to be spent on educational development only.

—Set tuition, miscellaneous fee, and, in the case of boarding students, boarding charges at appropriate levels.

—Qualified colleges and universities may transfer a portion of their teachers to provide services in return for payment. This should be done in accordance with the institution's actual conditions in a planned way systematically. In addition, they can develop new technology and high-tech industries in conjunction with any social quarter. In localities where financial contracting is under way, enterprises should be allowed to help an institution set up an enterprise provided the latter's tax commitments would not be affected. The earnings of the enterprises thus founded would be handed over to the institution concerned to supplement its educational funds and would be at its disposal.

Many institutions think that those are good methods although they are not sure how much money they can raise. Still, if only the authorities above would expand institutional decision-making power, institute a number of correct policies, and provide the right conditions, institutions of higher education should be able to come up with some of the needed funds through their own business endeavors and horizontal links, among other things.

### Improving the Efficiency of Educational Spending

A consensus in the higher educational community is that like the diversification of funding sources, economizing cannot be ignored in educational funding. To make sure funds are spent on the cutting edge, they envision five ways to save money:

—Establish educational appropriations committees at two levels, national and local. After the budget is examined and approved, educational funds should be centrally allocated by the education appropriations committees at the two levels. To strictly guard against fund misappropriation, the educational appropriations committees at the two levels should be responsible for centralized management while the finance and auditing departments should be responsible for supervision.

—Set up a China educational bank to fully utilize temporarily idle funds in society. These funds should be made available to institutions of higher education in the form of credit when they are short of funds.

—Strengthen educational fund management within the institutions. A sound financial system and supervisory system should be created to put an end to corruption and waste.

—The living expenses of retired teachers and staff should gradually be taken care of by social labor insurance or turned into a separate item of expenditure. They should not come out of educational funds.

—Expenses unjustifiably apportioned to institutions of higher education should be eliminated.

Almost all institutions of higher education think that higher education has been developing too rapidly in recent years. By their calculation, it takes at least over 10 million yuan to build an institution of higher education, money better spent on existing universities with good research and teaching capabilities. Because each sector and locality wants to have its own institution of higher education, the result is a large collection of small, comprehensive but inefficient institutions, drastically lowering the effectiveness with which educational funds are spent. This has prompted some universities to propose that a provision be written into the "basic education law" to limit the expansion of higher education to below the growth of educational funds. Otherwise, even an increase in educational funds would be of no avail.



### Reform the Distribution System Within an Institution

Over-staffing and "eating off the big rice pot" exist to various degrees in Chinese institutions of higher education today, which necessarily affects the tapping of the potential of an institution to the full. Most people in the higher educational community believe that eliminating redundant staff and raising the faculty student ratio to reduce the share of "personnel costs" represent yet another way to increase the earnings of university and college teachers. This can be done in two ways:

- Implement the distribution principle—"the more you work, the more you earn"—by fixing the level of establishment and through annual total payroll budget contracting and a teacher recruitment system;
- governments, labor and personnel departments, and education departments at all levels as well as institutions of higher education should work hard to make proper arrangements for the placement of redundant workers. They should assign them to production and business activities or paid services run by the university concerned or encourage them to join other institutions and units properly.

### Preferential Policy To Help Solve the Housing Problem of Teachers

The housing problem of university teachers on the mainland has remained unsolved for years and become more acute as housing reform gets under way. The long-term goal is the commercialization, privatization, and socialization of housing. In the near term, we need a series of preferential policies on the construction, distribution, and purchase of housing for teachers:

- increase investments in the construction of teacher housing through various channels. When a college or university enters into a joint venture with other units to build teaching housing, such a project should not be counted as state capital construction;
- urban planning and land management departments should allocate land for the construction of teacher housing preferentially. No urban development fees should be levied on land earmarked for this purpose;
- when an institution of higher education participates in the construction of a small residential development, it should pay for the costs of the residential units only. When a teacher purchases a residential unit, the purchase price also should reflect its cost only. The down payment should be lowered appropriately, with the remainder to be paid off over a reasonable amount of time.

### Discipline, Moral Education Proposed To Improve Academic Atmosphere

40050057b Beijing RENMIN RIBAO in Chinese  
16 Oct 88 p 3

[Text] The registrars and other interested comrades from 18 industrial colleges and universities including Qinghua University gathered at Xian Jiaotong University recently to compare notes and exchange experiences in improving the academic atmosphere, stabilizing teaching order, and bettering teaching quality. They also discussed measures to further academic reform and adapt education to socialist construction and the development of a commodity economy.

After extensively exchanging experiences, comrades at the conference analyzed the current state of reform in higher education in light of the reality facing each institution. It was agreed that the challenge posed by the new global technological revolution and the furthering of reform and opening up to the outside world have made new and tougher demands on higher education. Institutions of higher education must not only turn out a host of senior professionals who are idealistic, ethical, cultured, and disciplined, but also research and develop science and culture and turn themselves into a bastion of understanding, supporting, and publicizing reform and promoting the construction of the two civilizations.

The conference adopted the "Proposal on Improving the Academic Atmosphere" which would be issued to all institutions of higher education in the nation. The proposal makes the following suggestions:

- The improvement of the ideological and cultural tone of students should be elevated to an important position in university education. Ideological and political education should be improved and expanded vigorously. Political education reform should continue. Education in the humanities and social sciences should be amplified. Moral standards for university students should be set.
- All teachers should practice rigorous scholarship and raise their academic level steadily. They should apply themselves to teaching, improve teaching materials and methods, and raise the standard and effectiveness of teaching. They should integrate academic activities with ideological and moral education organically. They should concern themselves with and guide the all-round development of their students.
- Teachers should care about and love their students. They should strengthen the ties and dialogue between university leaders and students, open up democratic channels, and incorporate students into university management. They should inculcate among their students the sense that they are the master and inspire their enthusiasm for self-education and self-management. The students, for their part, should respect their teachers, study on their own initiative, and work hard to improve their ethical and cultural training.

—Various rules and regulations should be drawn up and perfected. University discipline and classroom discipline should be enforced strictly. Cheating in examination should be eliminated. A strict academic atmosphere must be cultivated.

—Efforts should be made to create a cultural environment on campus conducive to the development of all-round students. Public order on campus must be preserved, the academic atmosphere must be enhanced, and students should be given active help in organizing a variety of extra-curricular activities in science and technology, culture, art, and sports, thereby turning institutions of higher education into a stable, refined, civilized, and healthy learning environment.

The conference proposed that on voluntary basis, institutions in the same locality observe, inspect, and learn from one another to create a better academic atmosphere.

#### **Article Asserts Democracy Must Come Without Conditions**

40050433a Beijing GONGREN RIBAO [WORKERS DAILY] in Chinese 8 Jul 88 p 3

[Article by Chen Shi 7115 1395: "Democracy Must Come Without Conditions"]

[Text] Some people try to attach conditions to democracy, saying that it is an institution, cannot be discussed apart from institutions and authority, and is feasible only under "certain conditions." I doubt if democracy under these conditions can still be called democracy or if these comrades sincerely want democratic government.

Someone studied this word "democracy," found to his amazement that we Chinese have misunderstood the meaning of "democracy," and said that democracy is an institution and that the English word "democracy" should be translated into Chinese as "democratic institution." This discovery was of great significance. It told us that "Democracy and well-developed democracy can be discussed only under the conditions of strong institutions and authority." However, Chinese who knew some English were puzzled. When they saw the English term "democratic institutions" in Western political essays, they did not know how to translate it freely into Chinese. Should it be translated as "democratic institution institutions" and should the English term "the Democratic Party" be translated as "the Democratic Institution Party?" We are certainly not so well-learned in contemporary Western culture if one word can give us so much trouble. However, "democracy" is also used in the English term "democratic rights." Here the meaning is clear because democracy is a right. The literal meaning of democracy is that the people are the masters. I remember that a "Center for the Study of Democratic Institutions" was set up in 1959 in Santa Barbara, California. In which case, democracy does have something to do with institutions. In contemporary usage, the

English word "democracy" has the following meanings: 1) a form of government in which all of the people exercise direct political decisionmaking power according to majority rule, commonly called direct democracy; 2) a form of government in which people do not exercise political decisionmaking power personally, but through representatives who are elected by and responsible to them, called representative democracy; 3) a form of government in which the majority exercise the power with the aim of ensuring that all of the people enjoy certain individual or collective rights according to constitutional restraints, called liberal or constitutional democracy; 4) any political or social system that aims to reduce social and economic disparities (particularly those that arise from unequal distribution of private property). In the West, democracy also includes election campaigns for public office, freedom of speech and the press, and rule by law. It is quite obvious that these democratic "institutions" mean something entirely different than those that some of our comrades speak of.

Thus, democracy is not what everyone says it is. But it is certainly not indefinable or only what one person says it is! However it is interpreted, democracy is defined by the majority. In a book with the English title *Social Origins of Dictatorship and Democracy*, Barrington Moore pointed out that "Democratic progress is a long and necessarily unlimited struggle with the aim of accomplishing three closely related things: 1) to control autocratic rulers; 2) to replace autocratic rule with just and rational rule; 3) to ensure that the masses have a share in the ruling power." Democracy is basically a reaction to autocracy. Some say that democracy is as precious as the air we breathe. This is reasonable. Since it is like air, then it should be without conditions. We cannot refuse to breathe the air because it may contain various germs and dust. In social progress and historical development, democratization is an inexorable trend that no one can stop whether they like it or not. Some people say that democracy can develop only if it is conducive to the growth of the productive forces and the stability and unity of society. This is wrong. A high degree of democratic government, the growth of the productive forces, and the stability and unity of society are all different aspects of society and culture and do not have a cause and effect relationship. Even less can the growth of democracy be restricted because certain unstable factors exist in society.

Many people are now talking about authority and saying that democracy cannot be discussed apart from it. The crux of the matter is the kind of authority. Without a democratic foundation, the authority of the will of the majority cannot be expressed. That is autocratic rule and that kind of authority does not merit our support. The authority of feudal emperors was absolute. Do we still need that kind of authority? Contemporary social authority has a democratic foundation, has emerged through voluntary acceptance by the majority of people, and has not been imposed by an outside force. If the relationship between democracy and authority must be

discussed, then I think that authority cannot be discussed apart from democracy and that authority must be established on a democratic foundation and contribute to the development of democratic government. We need discipline and authority, but discipline that is according to the interests of the majority and authority that is based on the will of the majority. The will of the majority is the strongest authority, which cannot be compared to any self-styled or coercive authority. Democracy and authority should never have been set in contradiction to each other. People should not have to talk less about democracy because we need authority or consider the face of authority before exercising their democratic rights.

Democracy must come without conditions, and democratic government is a sign of social progress and must absolutely not be changed because of any other signs. Socialist modernization implies many things, but extensive democracy and culture cannot be neglected for it. One aspect should absolutely not be used to negate the other.

**Unequal Distribution of Income Discussed**  
40050433c Beijing GONGREN RIBAO [WORKERS  
DAILY] in Chinese 8 Jul 88 p 3

[Article by Su Xinmin 5685 2450 3046: "On Unequal Distribution of Income"]

[Text] Unequal distribution of income is now a much-debated issue. The so-called unequal distribution refers mainly to the failure to truly adhere to the principle of distribution according to work, the existence of successive levels of "disparities" between the incomes of staff members and workers in industrial and commercial enterprises, the incomes of mental and manual workers, and the pay for skilled and unskilled work; the inability of different kinds of workers to receive pay in line with the socially necessary work that they perform, and irrational wage proportions for various types of workers in different social strata. This situation seriously affects people's feelings about reform and lowers the social tolerance for reform and price fluctuations.

But unequal distribution of income is a very complex issue. On one hand, the egalitarian idea that all should eat out of one big pot is still quite prevalent in our present distribution system. At the same time, disparities between people's incomes have increased along with the gradual deregulation and stimulation of the economy. Some of these disparities are a reflection of distribution according to work, an elimination of egalitarianism, and rational. But others are irrational, with the incomes that some people receive being very disproportionate to the amount and quality of the work that they do. There are many reasons for this situation, such as the accepted value of various work results being irrational, the market mechanism being imperfect, and problems existing in property relations under the old system. But the main cause is relevant state policies, a minor one is

the objective reality that relations among complex socioeconomic interests cannot be rationalized all at once, and there are also problems with our economic legislation.

For instance, the payment for writing the words or composing the music for a song is usually only 10 to 20 yuan, while a performer can make hundreds of yuan or even more for singing it. This is a case of the accepted value of labor results being irrational. When a book is published and the profits are divided up, the author's pay is insignificant, while publication fees make up more than 40 percent of the book's price. This issue is quite common and many production plants make far less profits than those who circulate their products. Who really creates social wealth and whose work is qualitatively and quantitatively better? This is an issue of distribution policy. The wages of workers in certain tourist hotels and of taxi drivers are higher than those of staff members, workers, and cadres in direct production enterprises and government organizations. These irrational labor price relations certainly dampen the enthusiasm of most wage-earners for production work. Moreover, there is an issue here of unequal opportunity. It is the same with drivers. Bus drivers make about one-tenth of what taxi drivers make, but this disparity is man-made and this division of labor is not voluntarily chosen by the workers. In order to equalize widening income disparities, equal opportunity must be realized first. Those who want to work at jobs with high incomes must compete for them. Without fair competition, everyone will naturally remain unconvinced, not to speak of the fact that the income of those who do skilled work is higher than that of those who do unskilled work. Employment should be a market where income falls when supply exceeds demand and rises when demand exceeds supply. The rationality of employment composition is very dependent on distribution policy. If no one wants to do urban sanitation work, why not use high pay as an incentive? This would not be unequal distribution. The issue now is that, on one hand, income disparities between trades are large and, on the other, workers do not have the freedom to choose their jobs. If one's job is not voluntarily chosen, then he has a natural right to look for a better-paying one. Street peddlers can make a lot of money. Even though everyone may think they would like to be peddlers, why do very few try it? If they are envious, why do they not quit their jobs and go to work as individual household workers? They do not have the skill, the courage, or the ability to stand hard work and thus, resign themselves to less income.

Therefore, I think that the issue of unequal distribution of income can certainly not be resolved effectively by imposing regulatory taxes as some people say. Even after paying some tens of yuan in regulatory taxes, monthly incomes of as much as 1,000 yuan will still be many times higher than those of ordinary staff members and workers. The basic way to resolve the issue will be to regulate labor price relations and rationalize the accepted values of all kinds of work. How can they be

rationalized? I think that this should be settled by market forces. This will necessitate reforming the current labor and wage systems and practicing employment competition. Incomes should be determined by labor market supply and demand. Of course, trying to make exorbitant profits illegally must be firmly suppressed and punished, but it is certainly not in the category of unequal distribution. Unequal distribution is only inequality that is nominally legal, while trying to make exorbitant profits illegally is an issue of breaking the law and committing a crime and must be settled for by further improving economic legislation and supervision of economic auditing. Thus, I think that when discussing the issue of unequal distribution of income, unequal distribution must be distinguished from trying to make exorbitant profits illegally.

Unequal distribution of income must not go on, but it will not be an easy thing to stop. The basic line will be to act according to economic laws, "take drastic measures to deal with the situation," and not try to use piecemeal solutions. Income disparities will still exist, but they must be resolved fairly and by objective laws.

**Discourse on Power, Authority**

40050433b Beijing GONGREN RIBAO [WORKERS DAILY] in Chinese 8 Jul 88 p 3

[Article by Wang Yiqun 3076 5030 5028: "Power and Authority"]

[Text] The word "authority" is now quite widely used and has been in use for over 100 years, even since Engels wrote "On Authority." Actually, the words power and authority were originally unrelated in China. Perhaps they have become inextricably intertwined since the concept of "power-authority" has come into widespread use. Almost everyone who has ever been in power knew

that their actual power far exceeded the authority or position entrusted to them. Thus, they all did everything possible to establish their authority.

However, authority cannot exist independently in our perceptions or be "established" by manpower. It is a little like the saying that "Flowers may not grow even if one plants them, and willow trees will produce shade whether one plants them or not." In our socialist country, a leader can develop his authority naturally only by upholding the truth, representing the basic interests of the majority of the people, exercising his power legally, and building his prestige by relying on his special abilities and skills, character, and contributions. Otherwise, since what he holds is clearly power entrusted to him by the people, if he obstinately allows people to worship his power, goes so far as to "establish his authority" by "usurping power," or misuses his authority to show off his power, this is false authority and his power and authority are divorced from and contrary to each other. If a person who has had true authority violates the will of the people, he will fall from his position of authority and lose his authority to the extent that he misuses his power.

Although authority is based on obedience, obedience does not necessarily result in authority. As long as our system still tolerates one person using his position in state or social organs to arbitrarily decide the fate of another (or several or many others), obedience cannot be the only symbol of authority. Self-styled "truth-specialized households" have appeared in theoretical circles. They rely on organizing various criticisms to support their positions of authority. Even though they may have good perceptions, they still wear a "new mantle of imperialism." Many historical facts prove that once the members of a colony conceptually except anyone from obedience, it is impossible to ensure the authority of anyone who holds any position. Moreover, along with the expansion of democratic government, power based on false authority can be taken back by the people.

## NATIONAL AFFAIRS, POLICY

### State Companies Fined for Profiteering

OW2910000688 Beijing XINHUA Domestic Service  
in Chinese 1128 GMT 25 Oct 88

[By Reporter Fu Gang]

[Text] Beijing, 25 Oct (XINHUA)—After thorough investigation and repeated verification which lasted nearly 40 days, the Ministry of Supervision and the State Administration for Industry and Commerce have recently decided to deal with 13 long-standing, hard-to-handle cases of "bureaucratic profiteering," and instructed relevant local authorities to implement the decision.

Penalties in three more serious cases are as following:

The Chifeng Metal Material Company in the Inner Mongolian Autonomous Region engaged in serious speculation, trading zinc for aluminum and reselling it at a higher price, using state-controlled rolled steel as payment to purchase automobiles, and reselling them at a profit, trading beef for rolled steel, and reselling it at a higher price between 1985 and 1987. The company was fined 50,000 yuan for the above speculation and had some 600,000 yuan illegal profits from the speculation confiscated; the company's 362,000 yuan illegal profits from resale of aluminum ingots and rolled steel were confiscated; company manager Guo Hongyuan and deputy manager Liu Liancheng were dismissed from their posts and referred to relevant authorities for investigation of their criminal responsibility.

Between January 1984 and December 1987, the Changsha Textile Industrial Materials Supply and Marketing Company in Hunan Province bought, in violation of government regulations, from the Light Industry Ministry's affiliated China Souvenirs Production and Supply Company and the Industrial Arts General Company 4,052.95 metric tons of imported raw materials of various specifications, such as polyester fibers, polyamide fibers, acrylic fibers, silk, cotton, artificial silk, viscose, and wool. It then was found to have resold them to unauthorized enterprises in various localities for illegal profit. The company was fined 148,000 yuan and had some 2,962,000 yuan illegal profits confiscated; the company's two managers, Li Yunhui and Huang Yingke, who were held responsible, were demoted. As for the Light Industry Ministry's two affiliated companies which sold imported raw materials to the Changsha Textile Industrial Materials Supply and Marketing Company, the Ministry of Supervision and the State Administration for Industry and Commerce will further investigate, and deal with, the case. Certain leaders in Changsha City, who made impertinent remarks in the course of investigation and failed to promptly and properly deal with the case, should be held responsible, criticized, and instructed to make self-examination.

The Labor Service Company affiliated to the Xuchang Petroleum Branch Company in Henan Province was found to have illegally dealt in petroleum products. The Labor Service Company was fined 13,000 yuan and had some 300,000 yuan of illegal profits confiscated. A 30,000 yuan economic fine was imposed on the Xuchang Petroleum Branch Company for illegally assisting its affiliated Labor Service Company's unauthorized sales of petroleum products; and its manager Yin Haijun, who was held responsible, was demoted.

The other 10 cases involve the following companies: The Automobile Trading Center of the Zhuzhou Materials Bureau in Hunan resold 36 automobiles for over 100,000 yuan illegal profits, and its personnel who handled the sale accepted a 12,000 yuan bribe; the Yunhua Taxi Service Department in Kunming, Yunnan, resold 9 automobiles for 30,000 yuan illegal profits; the Transportation Company under the Yunnan Provincial Materials Bureau imported automobiles without approval; the Supply and Marketing Company of the Qingdao Building Materials Company in Shandong resold 215 metric tons of polyethylene at a higher price for 212,600 yuan profits; the Junan County Production Means Company in Shandong sold substandard compound fertilizers and obtained 62,000 yuan profit; the Fuyu County Phosphate Fertilizer Plant resold chemical fertilizers at a profit of 91,700 yuan; the Gannan County and the Pingyang County Production Means Companies sold chemical fertilizers at higher prices and each obtained some 30,000 yuan profits; the Xian Mechanical and Electrical Engineering Goods Company, Qindu Materials Bureau in Xianyang, and 4 other units in Shaanxi resold two imported automobiles for seven times for 30,000 yuan profits; the Lianghe Supply and Marketing Cooperative in Ningshan County, Shaanxi resold 16,500 kg of diesel oil for 5,800 yuan profit; the Gongzhuling Oil Depot in Jilin resold 387.868 metric tons of diesel oil for 40,000 yuan profit; and the Yitong County Petroleum Company resold 300 metric tons of diesel oil for 58,000 yuan profit.

The Ministry of Supervision and the State Administration for Industry and Commerce have decided to impose fines and penalties on these 10 companies in addition to confiscating their illegal profits. At the same time, they have notified relevant local supervision authorities to once again work together with the local industry and commerce administrative departments to examine the cases and make decisions on whether to take administrative disciplinary action against those held responsible in these cases.

Administrative disciplinary action in the above cases will be enforced by the local supervision offices, while economic action will be carried out by the local industry and commerce administrative departments.

### Official on Institutional Purchases

OW2810023288 Beijing XINHUA Domestic Service  
in Chinese 1453 GMT 23 Oct 88

[Text] Beijing, 23 Oct (XINHUA)—The State Council recently promulgated a “decision on strictly controlling institutional purchasing power.” In order to clarify some points regarding the decision, this reporter interviewed a responsible person of the National Leading Group for Controlling Social Institutions’ Purchasing Power.

Question: Can you tell us in specific what institutional purchasing power means?

Answer: Institutional purchasing power means funds used by party and government organs, civic organizations, troops, schools, enterprises, establishments, and capital construction units to purchase nonproductive commodities for their own consumption. If anything in the following six categories of commodities is purchased, the purchase will be regarded as an institutional purchase: medicines and medical equipment; protective items used by staffers and workers during work; coal used for heating water for workers to drink or to take a bath in or for heating the workplace; gasoline used for nonproductive purposes; specially controlled commodities; and other commodities (mainly items used in the office, cloth for public use, furniture, stationery and sports goods, gifts, foodstuffs, etc.)

Question: How is institutional purchasing power calculated?

Answer: There are two ways to calculate institutional purchasing power. One is the State Statistics Bureau’s statistical figures, which are based on the total sales value of nonproductive consumer goods sold through various channels by various businesses, the catering trade, the industrial sector, and other trades to various social groups, including neighborhood committees in cities and towns, urban neighborhood enterprises, villagers’ committees, and township enterprises. According to statistics calculated in this way, China’s institutional purchasing power was 53.3 billion yuan in 1987. The other way is based on purchasing reports forwarded by various social groups to the National Leading Group for Controlling Social Institutions’ Purchasing Power. Statistical figures calculated in this way only cover nonproductive consumers goods purchased by government organs, groups, schools, state and big collective enterprises, establishments, and capital construction units at or above county and city levels.

Question: Why is the state so strictly controlling institutional purchasing power?

Answer: Controlling institutional purchasing power is a long-term state policy formulated in accordance with the situation in China. Currently, China is relatively backward in its economic development and has a huge population and a poor foundation as a basis. Therefore,

we can not afford to discard the principles of diligence and frugality. In recent years, institutional purchasing power has grown too much. It is incompatible with China’s financial and material resources. Not only has it unnecessarily increased state expenditures, caused an adverse impact on the market, and vied with the people for benefits, but it has also contributed to extravagance and waste as well as to the practice of pursuing luxuries. This phenomenon is unfavorable for reform and the four modernizations and must be controlled.

The present excessive growth of institutional purchasing power is also one of the factors causing swollen consumption funds and excessive rises in commodity prices. For this reason, preventing the growth of institutional purchasing power has become an important measure taken by the CPC Central Committee and the State Council to improve the economic environment and rectify the economic order. We must seriously carry out the State Council decision and take pains to control institutional purchasing power.

Question: What are the principal measures taken by the state to control institutional purchasing power?

Answer: According to the State Council “decision,” the state is to resort to two types of control—direct and indirect control. The so-called direct control means that the institutional purchasing power of party and government organs at and above county and city levels, civic groups, enterprises owned by the whole people, collective-owned enterprises, establishments, capital construction units, as well as township enterprises and urban neighborhood enterprises—each of which has a workforce of over 200—must be controlled according to plan. Their superior authorities are to allocate them a purchasing quota. They are allowed to purchase only necessary commodities within the set limit. If their purchases exceed the allowed quota, they shall be punished according to relevant provisions and responsibility shall be affixed on relevant responsible leaders. The so-called indirect control means that units below the county and city levels, including village and town enterprises and urban neighborhood enterprises—each of which has a workforce of less than 200, must themselves make plans and curtail their own institutional purchasing power according to requirements set by their superior authorities. Meanwhile, if any unit, no matter whether it is under direct or indirect control, wants to purchase specially controlled commodities—29 in total, it must first get approval from organs in charge of controlling institutional purchasing power, and then purchase them from designated stores.

Question: Currently, what problems do we face in controlling institutional purchasing power?

Answer: Since the State Council issued an “urgent circular on strictly controlling institutional purchasing power and curtailing expenditures,” in February this year, most localities and departments have seriously carried it out

and taken a number of effective measures. As a result, the excessive growth of institutional purchasing power has been checked. According to the statistics of the National Leading Group for Controlling Social Institutions' Purchases, China's institutional purchasing power grew 1.5 percent in the January - July period, compared with the same period last year. However, the phenomenon of extravagance and waste remain unchanged.

**Question:** In light of the current situation, what will we do to strictly control institutional purchasing power?

**Answer:** The key lies in taking resolute and quick action to thoroughly carry out the State Council decision on "strictly controlling institutional purchasing power." To this end, we must seriously carry out the following:

First, governments and leaders at various levels must strengthen leadership in the work [of controlling institutional purchasing power], place the work on their daily agenda, keep purchases within set limits, reinforce organs in charge of controlling institutional purchasing power as well as increase their manpower, intensify inspection and supervision, and carry out the work in a down-to-earth manner.

Second, a system governing leading cadres' responsibility must be established. Various governments, departments, and units at or above the county level must charge an official with the responsibility for carrying out the work [of controlling institutional purchasing power]. From now on, the responsible official will be held responsible if irregularities are found in his unit. In addition, various departments as a whole must also be responsible for carrying out the work. Commercial and industrial departments, departments in charge of material supply, banks, and departments in charge of vehicles must coordinate with each other, closely scrutinize various units' purchases, and faithfully perform their respective duties. Responsibility shall be affixed on them if they are implicated in irregular cases. In the meantime, financial, auditing, and supervisory organs must intensify supervision and supervision.

Third, discipline must be strengthened to ensure strict enforcement of orders and prohibitions. Units which ignore repeated injunctions, persist in having their own way, and violate purchasing discipline at will, must be resolutely punished according to relevant provisions of the "decision."

**Outline of New Approach to Regulating Markets**  
40060004 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 15 Aug 88 p 11

[Article by Zhang Xinhua 1728 2450 5478: "Reform the System of Ownership, Accelerate the Shift From the Old to the New System, and Use Law To Regulate Market Trading: A New Order Must Be Brought to the Marketplace Beginning With Work in These Three Areas"]

[Text] In China's current economic life, violations of norms of behavior in market exchange generally are

related to two factors. First is defects in markets, including the imperfection of the market mechanism, the incompleteness of the market system, the lack of market operational rules, and flaws in markets themselves. Second is defects in market management, including the ineffectiveness of government control, gaps in the legal system governing the market, lax controls over government officials, and defects in government administration itself. Still, market and control defects are not new things that have appeared only recently but rather have emerged during the entire 10-year process of reform. Nor is lawlessness new in economic life, either. Why, then, do people feel that "the economic order" is plagued by unprecedented "chaos" in this day and age, when both markets and government control of markets are "growing and maturing"?

To answer this question, we must dig deeply into the internal workings of economic phenomena.

China's urban economic reform has focused on creating a "market" out of the existing system. During the early years of reform, planned economy was dominant in China's economic system, whereas the market played only a supplementary or dependent role, and the old rules and norms exercised considerable control over the operation of the economy. Thus even though defects in the market and in government control thereof arose in connection with social change, the entire "economic order" was not as "chaotic" as it now is perceived to be.

After 10 years of reform, we face a new situation. Planned control over economy and administrative control over prices have been greatly reduced, authority has been decentralized, and the range of economic activity subject to regulation through the market and people's freedom of choice to change their own status have steadily grown.

The following facts cannot be ignored. Market components have become a "system" unto themselves, no longer serve as "supplements" or "appendages," and in certain respects represent rising productive forces and a new basis for the coming system. By contrast, the traditional system, which is rooted principally in planned controls, is withering and declining yet will continue to cohere as a system and to exert a big influence on the entire economy for a long time to come. Thus the current economic system is a "dualistic structure" comprised of market and planned systems. The problem, then, is that the bases of these two systems, old and new, are entirely different, as are their structural deployments and operational laws and rules. The market system operates in accordance with the principles of freedom and division of decision-making authority, the responsibility system, the profit motive, the principle of fair competition, the sanctity of contract, the completeness of the legal system, and the like. The planning system, on the other hand, operates on the basis of the authority of plan controls, administrative fiat, hierarchical deployment, and relations of comradely trust. The "chaos" of China's economic life undoubtedly results from the fact that our economy is comprised of two systems that have profoundly different bases.



For example, in the market system, the profit motive is the accepted norm, and the search for profit forms an instinctive part of economic behavior. In the planning system, however, the practice is to distribute resources and adjust rewards on the basis of administrative power relationships.

This is how lawless behavior in China's economic life is to be explained. And this explanation reveals a profound contradiction, namely, between the traditional system of public ownership and the the market economy. The latter is rooted in a strict system of responsibility, and its principle of the profit motive means that each entrepreneur reaps the rewards of success and bears the responsibility resulting from failure. The traditional system of public ownership, on the other hand, provides no such restraints. This fact is probably the primary cause of the "chaos" underlying the current economic system.

The above analysis gives us a clearer understanding of the main task at hand; namely, creating a new economic order.

Economic order may be defined as the behavioral norms that everybody must follow in economic life and thus must be rooted in a specific economic administrative system. We must be explicit on this point. What we are striving to establish is a new system, a socialist market economy, which will use the market to allocate resources, organize production, and distribute rewards. Effective operation of the market mechanism presupposes a completely independent system of ownership. We believe that China's socialist market economy should not be rooted in public ownership, as represented by the state, but in common ownership, as reflected in joint stock systems or in a variety of cooperative ownership systems. Common ownership means independent ownership and broadens the theory of socialist planned market economy.

We believe that, to establish this new socialist market economic order, we must commence work with the following three areas.

First, we must promote reform of the system of ownership and eliminate the contradictions between the traditional system of public ownership and the workings of the market economy. According to the theory of property rights, some laws of economic operation are determined by the system of ownership, which, in turn, establishes the principal controls on economic behavior. The traditional system of public ownership, on the other hand, does not effectively allocate resources because it does not address the profit motive, even when its price system is rational. The key to transforming the public system of ownership lies in promoting a shift from that system, as represented by the state, toward a modern system of common ownership, as represented by joint-stock or cooperative ownership. For under the latter system, the rights to use, profit from, and transfer capital are separated from the ownership of capital (as in the case of

joint stock systems) or can be combined (as in cooperative economy). The common feature of these latter systems of ownership is that they define ownership and thereby specify the rewards and punishments to be effected by the price mechanism. Only thus can we truly sever the bond between enterprises and government, institute real market exchange, and solidly establish the core principles of market economy, such as the profit motive and fair competition.

Second, we must accelerate the shift from the old system to the new and progressively eradicate the aberrant activities of the current system and the infringements by the old system on the new. Until the new system supplants the old, China's economy will continue to be comprised of two different systems, each of whose basic principles are bound to clash and become distorted, so "commercialization of power," administrative "infringement" on markets, and the like will be unavoidable. Nevertheless, however inevitable this "dualistic" structure may be, the transition from the old to the new system should not be dragged out too long. Rather, it is imperative that we accelerate the process.

Realistically speaking, to accelerate the transformation, we must begin by promoting price reform, and stepping up the effort to abolish the double-track system of pricing is an important move in this direction and will help extirpate "arbitrage" and "official profiteering." Operationally, however, it will be very difficult to eliminate these problems all at once. We should consider focusing on "small links" in the economy, letting products that can cope take the first step, and then moving one product after another out of "double tracking."

The key to our effort to give the market system the leading role in the economy lies in creating a new price mechanism, which, in turn, is bound to spur tremendous change in the readjustment of resource and reward distribution. Thus the establishment and improvement of an enterprise bankruptcy system and a system of social security are indispensable to our effort to "switch tracks."

Only by giving the market system the leading role in the economy can we lay the required groundwork for the establishment of a new economic order and enable economic regulations to begin to effectively control economic activity.

Third, we must use law to regulate market trading and the behavior of government functionaries. The history of the development of traditional market economies reveals a fundamental truth, namely, that as market trading is ordered and normalized, law gradually begins to serve as a means of regulating economic activity, and this process helps complete and perfect the legal system itself. We must realize that the defects in markets and market management discussed above will be unavoidable during reform. Therefore, we must strengthen the regulatory and oversight functions of law, for these will



help greatly to reduce the effects of the "defects." Many problem areas are in need of legal regulation and control, such as the issues of state involvement in commerce, of economic monopoly, and of the "change of heart" on the part of government officials with respect to money. We must draw up laws as quickly as possible to deal with these and other problems. Such work forms an indispensable part of our effort "to establish a new economic order."

### **Joint-Stock System Viewed**

HK1011000188 Beijing ZHONGGUO JINGJI TIZHI  
GAIGE in Chinese No 10, 23 Oct 88 pp 7-11

[Excerpts of speech by Zhang Yanning 1728 1750 1337 at the "Symposium on Enforcing Joint-Stock System in Big Enterprises and Stock Market": "Some Questions Concerning the Joint-Stock System"]

#### **[Text] 1. Socialism Should Make Use of the Joint-Stock System To Serve Its Own Purpose**

The joint-stock system first emerged as a popular modern enterprise system in the 17th century. It was not until the second half of the 19th century that the joint-stock system began developing by leaps and bounds. The joint-stock system emerged as a result of the development of the commodity economy and the large-scale socialized production. The development of the joint-stock system has also in turn pushed forward with the development of the commodity economy and the large-scale socialized production.

The joint-stock system is not an economic phenomenon peculiar to capitalism. Socialism can and should make use of the joint-stock system to serve its own purpose. In order to develop the commodity economy in our country, we should actively explore diverse methods to facilitate the development of the commodity economy. To enforce the joint-stock system in our country in a planned way and step by step is of great significance not only to the development of our national economy but also to the reform of the economic structure and the rationalization of the enterprise mechanism. Specifically speaking, the necessity of enforcing the joint-stock system in our country is manifested in the following aspects: The enforcement of the joint-stock system in our country is conducive to separating the enterprise ownership from the enterprise management right and further invigorating the enterprises under the system of ownership by the whole people; the enforcement of the joint-stock system in our country can help to raise more funds for our country's economic construction and raise the fund utilization rate; the enforcement of the joint-stock system in our country can help to coordinate the essential means of production among the enterprises through value formation so as to enable the enterprises to complement one another in their respective developments, thus further rationalizing the allocation of resources; the enforcement of the joint-stock system in our country is conducive to gradually removing the barriers between

higher and lower levels and between different departments and regions in the economic development of our country and to forming a big unified national market in our country; the enforcement of the joint-stock system in our country can facilitate the development of the export-oriented economy and the formation of a new economic development pattern in the coastal areas of our country; finally, the enforcement of the joint-stock system in our country can increase the transparency of enterprise management and reinforce the self-restriction capacity of the enterprises.

Through the 10-year reform, our country has made much headway both in the theoretical study on and in the practical explorations of the joint-stock system. At present, with regard to enforcing the joint stock system, our country has a lot of favorable conditions. These favorable conditions mainly include: The theory of the initial stage of socialism has provided an important theoretical basis for the enforcement of the joint-stock system and the development of diverse economic factors in our country; the reform of the macroeconomic structure has created a favorable environment for the development of the joint-stock system in our country; the implementation of various forms of the contracted management responsibility system in the enterprises is conducive to the trial-enforcement of the joint-stock system in our country's enterprises; finally, a batch of enterprises which have been selected to carry out the trial-implementation of the joint-stock system have opened up new vistas and accumulated experiences for the overall enforcement of the joint-stock system in our country.

#### **2. Some Major Questions Our Country's Enterprises Must Study and Solve at Present in Order To Enforce the Joint-Stock System**

The joint-stock system has been enforced in the economically developed western countries for more than 300 years. Hence, the economically developed western countries have already accumulated rich experiences with regard to the techniques and laws for enforcing the joint-stock system. Some of the rules and regulations as well as legal concepts formulated by the economically developed western countries have been accepted and applied by the majority of the countries in the world. We should draw on what is beneficial to us from these rules and regulations as well as legal concepts. Owing to the difference between our country and the economically developed western countries in respect of the social system and the economic development standard, the joint-stock system presently enforced in our country on a trial basis is bound to demonstrate its own characteristics: First, our country's joint-stock system is established on the basis of the system of public ownership. Therefore, whether an enterprise of our country should enforce the joint-stock system or not should ultimately be determined by the rationality and feasibility of the actual needs of our country's economic development; second, since the joint-stock system is enforced in our country at

a time when the standard of our country's productive forces is relatively low, our country's market conditions are still imperfect, and our country's old economic structure is being substituted by a new one, the development of the joint-stock system in our country is bound to be restricted in various ways. Therefore, it is impossible that at the very beginning, the joint-stock system enforced in our country's enterprises will be as perfect as the joint-stock system presently enforced in the economically developed western countries. Under such circumstances, we should first try our best to standardize our country's joint-stock system. However, we must guard against overrashness in standardizing our country's joint-stock system. Instead, we should adopt some interim measures to facilitate such standardization. The standardization of our country's joint-stock system is a process demanding numerous experiments, comparisons, and choices. If we laid excessive stress on the standardization of our country's joint-stock system at the very beginning, the entire process of enforcing the joint-stock system would be slowed down. The standardization of our country's joint-stock system will only be achieved when the standard of our country's economic development is raised and when a series of reforms supplementing the reform of the economic structure are carried out.

We should, in the light of the international convention and the actual conditions of our country, actively study and probe into some major questions that emerge in the process of the trial-enforcement of the joint-stock system in our country's enterprises:

1. The question concerning the scope and focus of the enforcement of the joint-stock system.

Whether an enterprise should enforce the joint-stock system or not is determined by whether it is necessary and possible to establish such an economic mechanism in the enterprise. At present, we should first carry out the trial-implementation of the joint-stock system in the enterprises which participate in the market competition as well as in the export-oriented enterprises in the coastal open cities. We can enforce a relatively standard joint-stock system in accordance with the international convention in the newly built enterprises at the very beginning. We should deal with the interests among various enterprises that are members of certain enterprise groups and enterprise combines by actively introducing the mechanism of the joint-stock system into these enterprise groups and enterprise combines. The enterprises which have been operating relatively well can also enforce the joint-stock system by selling part of their shares to other enterprises or to foreigners. In accordance with the instruction of Comrade Zhao Ziyang, we have set up a special group to study this question. I also hope that all of you can study this question.

We should carry out the trial-enforcement of the joint-stock system in light of the actual conditions of our country in an orderly way and step by step. With regard

to capital increment, we can first enforce the joint-stock system on a trial basis. With regard to capital storage, we can first enforce the joint-stock system in a number of selected enterprises which have the necessary conditions on a trial basis so as to gain experiences. Under the existing market conditions, especially when a sound financial market has not yet been established in our country, we can first establish some limited-liability companies on a trial basis while turning a small number of enterprises into limited joint-stock companies which will issue shares on a trial basis.

2. The question concerning the structure of share ownership.

In the enterprises which have enforced the joint-stock system on a trial basis, share ownership is generally divided into the following categories:

(1) The state shares, namely, the shares formed by the direct investment made by the state (including the state organs at the central and local levels).

(2) The unit shares, namely, a type of shares formed by the investment made by other units or by other enterprises with their after-tax profits. People usually call this type of shares as "enterprise shares."

(3) Individual shares, namely, a type of shares owned by individual workers and staff members within the enterprise concerned or a type of shares owned by individuals in the society.

There have been differing views on whether it is necessary to allow the "enterprise shares" to exist in the share structure of a joint-stock enterprise. As far as this question is concerned, I hope that the comrades in the theoretical circle, the departments doing practical work, and the various enterprises will continue their study and explorations on this question.

Another question concerning the structure of share ownership is the exact percentage the state shares should account for in the share structure of a joint-stock enterprises. Generally speaking, the public ownership should dominate in our country's economy. However, the exact percentage the state shares should account for in the share structure of a specific joint-stock enterprise should be determined by the position of that particular enterprise in the entire national economy of our country. To ordinary enterprises, there is no limit on the number of shares they publicly issue to the individuals or foreigners. However, in some big enterprises whose productions have an important bearing on the life-blood of our national economy, our people's livelihood, and the national security of our country, the state shares should account for an overwhelming majority of the total number of shares of these enterprises. Moreover, when defining the share ownership regarding the enterprise assets, efforts must be made to protect the state property, prevent the public property from being turned into the

private property, prevent the state assets from being distributed to the small collectives and individuals without compensation, and prevent the interests of the state and collectives from being jeopardized.

### 3. The question concerning the evaluation of assets.

Before enterprises invest in one another, buy shares from one another, or issue shares in the light of their capital storage or capital increment, they should first make an inventory of their assets and capital and convert all their assets and capital into shares. When evaluating assets, efforts should be made to protect the state property and do things in an effective way. At present, enterprises can generally choose from the following three measures when evaluating their assets:

The first one is to evaluate the enterprise assets in light of the book value of the enterprises. This is a direct and easy way of calculating the enterprise assets. However, with regard to some old enterprises with a history of several decades, such a method might result in the underestimation of their assets since it is impossible to take into account such factors as the price increases and currency depreciation which happened during early years. Therefore, such a method can only be applied at a time when the enterprises under the system of ownership by the whole people invest in one another with their state-owned assets and buy shares from one another.

The second one is to evaluate the enterprise assets in light of the replacement assets of the enterprises. This method can enable us to evaluate the enterprise assets in light of their present value so as to maintain the value of the enterprise assets and protect the state property. When reevaluating the fixed assets of the enterprises, it is necessary to take into account the time of the purchase of the relevant equipment, the changes in the price index, and the changes in the exchange rates, for some of the equipment was imported from abroad. If the equipment was purchased under the double-track price system, it is also necessary to take into account whether the equipment was purchased at the state prices or at the negotiated prices, and some other factors.

The third one is to evaluate the enterprise assets in light of the expected value of enterprise assets. The expected value of enterprise assets is calculated in light of the expected profit rate of the enterprise capital. The implementation of this method might be difficult because it is difficult to correctly predict the expected profit rate of the enterprise capital at a time when the financial accounts of the enterprises are still kept secret and the stock market has not been established yet. However, such a method can be implemented on a trial basis in those enterprises which have been operating smoothly and whose capital profit rate has increased steadily over the past few years.

Besides, when evaluating the enterprise assets, it is also necessary to take into account the value of the enterprise technology, trade mark, and prestige as well as the value of some other invisible enterprise assets, the enterprise land use value, the enterprise differential rent income, and so on.

### 4. The question concerning the distribution of the income of share ownership.

This is a sensitive question concerning the interests of all parties concerned. Owing to the frequent readjustment of prices and interest rates as well as inflation, this question has become a very complex one. Therefore, we must carry out the distribution of the income of share ownership by proceeding from actual conditions: First, the board of directors should be given the power to decide the order and percentage regarding the distribution of the after-tax profits of a joint-stock enterprise; second, the income of share ownership must be distributed in accordance with the principle of equality, that is, equal income, equal profits, and equal risks for shareholders holding an equal number of shares. The investment made in shares cannot be withdrawn; third, the board of directors should have the power to decide whether to distribute both dividends and extra dividends of a share to the shareholders or just distribute one of these two types of dividends to the shareholders and whether it is necessary to set a ceiling for the amount of dividends or extra-dividends distributed to the shareholders. This is because the enterprises cannot withstand the strains resulting from the distribution of too big an amount of dividends and extra-dividends to the shareholders. However, if only a small amount of dividends and extra dividends are distributed to the shareholders, then the share will certainly lose its attraction; fourth, whether it is necessary to turn the dividends and extra dividends of the state shares over to the state or to allow the enterprises to retain them as reinvestment in the state share ownership or as investment in the expanded reproduction.

### 5. The question concerning the stock market.

According to the international experiences, in order to boost people's confidence and enthusiasm in the shares they hold, we must first of all create two conditions: First, people can receive a certain amount of income from the shares they hold; second, shares should have a strong cashability and can be transferred in time. In order to create these two conditions, it is necessary to establish a stock market. The comrades in the financial circle have already carried out a lot of study and practical explorations on this question. I hope that the comrades concerned will continue to carry out their study and explorations on this question.

### 6. The question concerning the formulation of the relevant laws and the making of the necessary preparations to ensure the smooth enforcement of the joint-stock system.

The enforcement of the joint-stock system in our country is bound to conflict with the existing management system as well as some of the existing rules and regulations of our country. Therefore, in order to guarantee the healthy development of the joint-stock system, it is necessary to formulate the relevant laws on the basis of the experiments carried out in some selected enterprises and make the necessary preparations to ensure the smooth enforcement of the joint-stock system. To this end, we should mainly accomplish the following tasks: (1) to formulate rules and regulations concerning the management of the state assets and clearly define the owner and the specific representatives of the state assets; (2) to formulate rules and regulations concerning the management of shares and solve the questions regarding the issuance, transfer, purchase and sale of shares and the management of the stock market; (3) to formulate specific measures concerning the evaluation of assets and solve the question of fixing prices for shares of goods and industrial assets; (4) to formulate and promulgate the Company Law as soon as possible and work out specific rules and regulations in this regard as well; (5) to carry out the reform of the taxation system, formulate specific measures concerning the taxation of the joint-stock enterprises, and separate taxes from profits; (6) to speed up the work of organizing and perfecting the social notarization, supervision, and service systems and establish and perfect public accounting offices and institutions specialized in the management of auditing, notarization, evaluation of assets, and shares.

### 3. How To Deal with the Relationship between the Contract System and the Joint-Stock System

At present, people hold widely divergent views on the question whether the contract system and the joint-stock system can integrate and coexist with each other as well as complement each other or just replace each other. How should we view this question?

First of all, we should see that the joint-stock system and the contract system share some common mechanisms: First, both the joint-stock enterprises and the contracted enterprises will have to set up competition mechanisms. Through the market competition, the superior will survive whereas the inferior will be eliminated; second, both the joint-stock system and the contract system have risk mechanisms. The implementation of the risk-mortgage contract system has greatly heightened the consciousness of the enterprises in facing up to their operational risks and assuming full responsibilities for their own losses and profits; third, both the joint-stock enterprises and the contracted enterprises can rationalize their organizational structures through their amalgamation mechanisms; fourth, both the joint-stock system and the contract system are the effective forms of separating the enterprise ownership from the enterprise management power.

Besides, we should also see that there are also some differences between the joint-stock system and contract system. Compared with the contract system, the joint-stock system can better accomplish the task of separating

the enterprise ownership from the enterprise management power, enabling the enterprises to assume full responsibilities for their own profits and losses, and clearly defining the relations of the enterprise assets. However, at present, the contract system is more suitable to our country's enterprises than the joint-stock system because at present, the enforcement of the contract system can more effectively tap the latent potentials and increase the economic results of the majority of our country's existing enterprises.

From the above analysis, we can see that the joint-stock system differs from as well as conforms with the contract system. The joint-stock system does not in any way contradict the contract system. Instead, the joint-stock system and the contract system can coexist and complement each other. It is utterly wrong to set the joint-stock system against the contract system or to completely separate the joint-stock system from the contract system. The joint-stock system is an enterprise organizational form reflecting the enterprise property relations whereas the contract system is an enterprise operational method reflecting the relations of responsibilities, powers, and interests. Therefore, contracted enterprises can raise funds and develop their production by using the method of the joint-stock system. The joint-stock enterprises should also establish the contract mechanism centering on the responsibility system. The Jinbei Automobile Joint-Stock Company Ltd. is a typical example showing the integration of the superiority of the joint-stock system with the superiority of the contract system.

At present, our country still lacks conditions for the extensive enforcement of the joint-stock system. Our country's joint-stock system is still at the stage of exploration. Therefore, on the one hand, we should actively carry out the trial-enforcement of the joint-stock system in selected enterprises and make preparations for the extensive enforcement of the joint-stock system in our country; on the other hand, the majority of our country's existing enterprises should continue to concentrate their efforts on further perfecting and developing the contract system, enforcing the contract system in a down-to-earth way, and substantially increasing their economic results in the next few years. Especially, in the course of the price reform and the wage reform, we should make every endeavor to enable the enterprises to withstand the strains of the price reform and the wage reform mainly by virtue of the enforcement of the contract system. Therefore, the stability of the contract system must be maintained. Only by maintaining the stability of the contract system will we be able to successfully negotiate all the difficulties in the course of the price reform and wage reform.

**Summary of Thinking on Medium-Term Reform**  
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*GAIGE in Chinese No 10, 23 Oct 88*

[Article by Zeng Guoxiang 2582 0948 4382: "Thoughts On Mid-Term Reforms"]

[Text] 1. The Goals and Focal Points of the Medium-Term Reform

The idea of the medium-term reform is as follows: We must introduce the reform on an overall basis and focus on a shift to an economic mechanism. Beginning next year, we must generally spend another five or seven years striving to achieve the following: We must put a fundamental end to the situation of two systems and two mechanisms existing side by side and place the new economic system in a dominant position. The main aspects of economic life must start operating according to the new economic system. Ultimately, enterprises must be run along the lines of companies, the operation of the economy put on a market basis, and macroeconomic control exercised in an indirect manner.

The focus of the medium-term reform calls for directing efforts to a switchover to an economic mechanism, stimulating the development and growth of the new economic mechanism, and ultimately replacing the old mechanism with the new one.

New economic mechanisms that need to be set up as substitutes are mainly as follows:

The macroeconomic balancing mechanism, with the exercise of mutual restraints.

Now, the functions and duties among the planning, financial and banking systems have not been well defined and sorted out. Among planning, financial and banking departments, a balancing mechanism has not been set up, exercising mutual restraints. There is no balance in plans, no balance in revenue, and no balance in credit, with the existence of potential factors that compete with each other and make for an imbalance. This is a knotty problem that must be solved in deepening the reform in an overall manner.

To set up a macroeconomic balancing mechanism, we must link reform plans with financial, investment and monetary systems.

The price-setting mechanism.

The medium-term goal of the price reform involving a new mechanism is: Except for grain for residents, and other fundamental means of subsistence, and basic sources of energy and raw materials, the prices for commodities are set through the market. There will be a shift from governments at various levels to various enterprises as the price-setting core.

At present, the main problems existing in the price-setting mechanism are: 1) There is a relatively large proportion of prices set by governments at various levels. 2) The prices of the natural products cornered by the government have not been subject to necessary supervision, with the appearance of the phenomenon of freely raising prices. 3) The government has lacked an effective regulating mechanism concerning the protective prices for agricultural products, with a panic arising where there is either an undersupply or an oversupply.

For this reason, we must resolve to narrow the range of price-setting by governments at various levels. To stabilize the market for agricultural products and especially the markets for grain, cotton, sugar, meats, eggs, and vegetables, contracts for purchases by the government with enterprises, and contracts for purchases between enterprises and between local governments, must be marked by stability in three respects: 1) The fundamental stability of production bases; 2) The fundamental stability of relations between purchasers and sellers; 3) the fundamental stability of contract prices. Concerning the agricultural means of production (such as chemical fertilizers, insecticides, diesel oil, plastic sheeting for fields, and so forth) supplied by the government on the basis of a linkup with the volume of contracted purchases of agricultural products, unified selling prices may be introduced on the basis of quotas for supplies. Such quotas are introduced on a household basis. The price differences between the market price and the price of plan-related supplies are to be refunded to peasant households. This is to prevent the units handling plan-related agricultural means of productions from profiteering and using the right of distributing quotas as a means to make profits.

To establish a price-setting mechanism as a substitute, we must link up the reforms of commodity prices with the commercial, commodity, and investment systems.

The mechanism of enterprise self-responsibility for profits and losses and self-development is the basis for the operation of the economy in raising efficiency and improving results. Any form of organization, or form of operation adopted by enterprises, and reforms in any other respect must help in stimulating the operation of enterprises in the direction of self-responsibility for profits and losses, independence in operation, and self-development.

To this end, we must expose enterprises of a business nature to the cold world of the market in groups over different periods of time. Steps must be taken first with urban and rural individual industrial and business operators and Chinese-foreign joint-venture enterprises, then with rural industrial and commercial enterprises, and then further with urban collective enterprises and with urban small and medium-sized enterprises owned by all the people. Meanwhile, we must encourage well-run enterprises to contract for or integrate with those enterprises with a poor performance, especially those money-losing ones, and to develop, through integration, into enterprise consortia that cut across departments, across the systems of ownership, and across different areas.

In coordination with the development and growth of the mechanism of enterprise self-responsibility for profits and losses and self-development, organs must take new steps in reform: Not letting various categories of administrative organs at various levels and administrative organs in disguised form have a share in money, in things, in quotas and in technology transformation

projects; not letting these organs examine and approve things that should be the business of enterprises themselves, and doing away with the power of administrative organs at various levels to intervene; and not letting these organs collect fees and impose allocations freely. The layout of administrative organs at central, provincial, city and county levels should take on the shape of a funnel. The lower the level the fewer should be the number of organs and the number of people involved. Organs at city and county levels must especially be highly streamlined, with the staff reduced to a minimum. Some of them may be integrated, and some may be abolished.

We must sever the relations of enterprises being administratively subordinated to various categories of organs at various levels, and do away with the function of direct intervention in enterprises. Enterprises of various types must register with the nearest local department of industry and commerce and be allowed to operate on their own. The local government is to exercise supervision over these enterprises according to the law.

The mechanism of market competition.

The core of the market is enterprises. Competition between various enterprises and between various markets covers: Competition of the commodities market, competition of the money market, competition of the labor market and the talent market, and the competition of markets for other key elements.

There is the need to study concrete policies and measures to cope with such problems as: How to have enterprises compete on an open, fair and equal basis; how to prevent monopolies; how to overcome a market breakup (with departments separated and areas separated) and market isolation (with departments isolated and areas isolated); the mechanism of the market guiding enterprises; the matter of organization, arbitration, management and supervision in regard to the market, and so forth.

The mechanism of indirect regulation and control [tiao kong 6148 2235] by the government.

The goal of indirect regulation and control by the government is: taking money as the core (first regulating and controlling the money market and then using the money market as a guide to the commodities market and markets for other key elements and as a guide to the readjustment of the mix of investments and the mix of industries or products), and taking subsidies, subsidized interest rates, discount rates, interest rates, the level of reserve funds, tax rates, and exchange rates as levers.

In establishing a mechanism of indirect regulation and control by the government, the most important thing is to enable governments at various levels to mainly use economic means in regulating and controlling the market (which means overall supply control and guidance involving composition) and to chiefly use administrative means in directly guiding and controlling enterprises.

The right of ownership of assets exercised by the government as the owner of assets must be separated by the right of indirect economic regulation and control exercised by the government as the manager of society

## 2. The System of Public Ownership and the Socialist Market Economy

The market is the sum total of the relations of exchange. To deepen and accelerate the reform of the economic system in an overall manner is to thoroughly transform the traditional products distribution economy system (distribution of material goods, funds, quotas, projects, and so forth) into a new-type commodities exchange economy system, or the socialist market economy system.

We must get rid of the old concept of the market economy being equivalent to the capitalist economy. The commodity economy and the market economy are not unique to capitalism, just as commodities, currency, and so forth are not unique to capitalism.

The socialist market economy is based on the market and, at the same time, guided by policy makers.

The traditional system of public ownership (the unilateral system of ownership by all the people and the unilateral system of collective ownership) is actually a system of ownership in which there is a vague idea about the owners of assets, with no one held responsible. Therefore, it cannot be integrated with the market economy and must be subject to a fundamental transformation.

Existing enterprises owned by all the people must at least be put in two categories:

The first category covers government-run fundamental facilities, public utilities (railroads, postal and telecommunications facilities, civil aviation, urban public utilities, and so forth), and enterprises. The system of employment still partakes of the character of an "iron rice bowl." So long as people do not run afoul of the law and reconcile themselves to the job, they have no worry about being dismissed. The wage system is patterned after that for government employees and teachers. In line with the growth of national income and general revenue, a certain proportion (25-30 percent) of relevant personnel every year normally take qualifying examinations and receive promotions and pay increases. Enterprises of this kind are relatively stable, with less risks involved.

Another category are enterprises of a business nature that are responsible for their own profits and losses. Enterprises in this category are put on an equal footing

with other enterprises of a business nature. They compete with others, and strive to survive and develop in competition. They also introduce the system of employment based on competition. Personal income of workers is based on the performance of enterprises. Enterprises of this kind are exposed to fierce competition and relatively great risks.

As to the great number of small enterprises at county levels run by all the people and small factories and small shops in cities run by all the people, they may be taken over by other enterprises or individuals through auction, the due transfer of liabilities and assets (including the right to use land), integration, and so forth. Thus, the percentage of state-owned enterprises is reduced, with the removal of many of the heavy burdens placed on the state.

Concerning most of the enterprises of a business nature owned by all the people, due to the circulation of the key elements of production, and the practice of enterprises with different systems of ownership holding shares in each other, entering into partnership, or having a controlling interest in another, there have been fewer and fewer enterprises that can be put in the category of a unilateral system of ownership by all the people, or a unilateral system of collective ownership in its original sense. They will actually end up eventually as a mix of various systems of ownership (owned by society). The core owners of these enterprises may be the government, intermediary organs in society, or individuals. But there will be a large number of legal entity enterprises. These new legal enterprises with a mix of systems of ownership are not enterprises owned by all the people nor collective enterprises. Instead, they are a new-type of publicly owned enterprises. Various new types of publicly owned enterprises are organized in accordance with legitimate operations. As to these new publicly owned enterprises, the important thing is to distinguish owners and not to define systems of ownership (ownership by all the people and collective ownership). Moreover, all enterprises will no longer be ranked on an administrative basis.

### 3. The Relations Between the Price Reform and the Enterprise Reform

The relationship between the price reform involving the development of a market and the enterprise reform is actually that between "fish and water." The enterprise is the "fish," and the market the "water," with one dependent on the other.

People often ask whether prices as the dominant factor should after all be linked up with reform, or whether enterprises as the dominant factor should be linked up with reform. In fact, the price is something external. It is a reflection of the relations of market supply and demand. The reform involving the formation of a price mechanism must be linked with the reform of the

enterprise mechanism. Therefore, it is appropriate not to put forward the idea of which is to be taken as the center in linking things with reform. Actually, the focal points of measures introduced in reform every year may be different.

In the process of enterprise integration and in the process of introducing the enterprise joint stock system, a number of new-type publicly owned enterprises will naturally emerge. By severing the relations that exist between departments in charge and these enterprises, the latter can become independent legal entities economically. Then new enterprises will be bound by the restraints of a dual market (sales of commodities being directly restrained by the commodities market, and a big or small margin of profit being directly restrained by the money market, including the stock market). This will force enterprises to increase labor productivity and improve economic results in competition.

Enterprise integration may assume the form of total integration (involving relevant personnel, equipment, factory premises, sites, fixed assets, working capital, accounts payable and receivable, and so forth), or partial integration. Enterprise integration must be firmly based on the principle of independence and willingness. Guidance may be given, but there must be no involvement with administrative integration, or "forced marriage."

### 4. The Relations Between a Unified Market and a Local Market

In the medium-term reform, we must adopt the strategy of carrying out unified planning and pushing forward reforms in separate stages, with priorities and regional differences in mind. For economically developed coastal areas, areas in the middle part, and economically underdeveloped areas, the medium-term reform should vary in its goals, its priorities and its steps.

The medium-term reform in special economic zones and Hainan Province should be designed on the basis of the socialist market economy system. In these areas with the commodity economy relatively developed, the socialist market economy system will first take shape and go into effect.

In economically relatively backward areas with the commodity economy underdeveloped and with a shortage of funds and talent, we should keep our hands off, take a more liberal attitude toward operations, encourage the development of individual and privately run economic undertakings and town and township enterprises and the development of Chinese-foreign joint venture economic undertakings, and get less involved or not involved with the kind of "big and complete" enterprises owned by all the people, with everyone sharing equally in the big rice pot. At present, the more economically backward the areas, the more rigid the control over enterprises. There are just too many kinds of "control" and "intervention,"



with enterprises bound hand and foot. This does not help in the development of the local economy, with the economic gaps between areas widening increasingly.

In introducing the medium-term reform with regional differences in mind, we must pay attention to the two ends (one is economically developed areas and the coastal open belt, and another is economically backward areas), and stimulate the development of the middle (areas in the middle part). Reforms must be introduced gradually, with guidance put in different categories. In the early stage, we must focus on solving the problem of a switchover from a dual to a unilateral system for the prices of the means of production.

Now, for the financial income of provinces, autonomous regions, municipalities directly under the Central Government, and cities included in plans, a contract system in various forms has been introduced. To increase local revenue, various areas have witnessed the phenomenon of separation of areas and even blockades of commodities (touching off the so-called wool battle and the silk battle). They even tend to undercut each other on the international market, competing blindly and "letting the biggest part of the profit go to outsiders." The direct cause of a separation of areas and a blockade of commodities is the prices of commodities purchased under contract and appropriated (especially energy, industrial raw materials, grain, and other primary products) being on the low side. This has impaired the interests of the areas producing raw materials. Now it seems that the problem of economic interests between areas can only be solved with the use of economic means. It is suggested that a market trading committee (which can be loosely organized) that cuts across provinces be set up to guide and coordinate the exchange of commodities between areas. The processing industry-related areas can adopt the means of pretax distribution of profits, transferring part of the profits to the material-producing areas and entering into business cooperation with them, with taxes paid separately. This can be done between provinces, municipalities and autonomous regions and within provinces, municipalities and autonomous regions. Thus, the problem of competing for raw materials among areas being actually a scramble for profits can be solved. Full play can also be given to the processing capacity and the level of technology and art in developed areas. The quality of products is thus raised, with an increase in competitiveness in the international market. This does away with overlapping production and construction efforts involving a low level and low quality. The waste of appropriated funds and human and material resources is avoided.

#### 5. The Relations Between the Medium-Term Reform and Steady Development

At present, the rate of inflation has surpassed the bank interest rate, with the currency unstable, the market unstable and the people's state of mind unstable. To stabilize the economy, we are determined to find a comprehensive cure for inflation.

Inflation is a kind of "addictive drugs." The idea or suggestion that advocates involvement with inflation, or the use of the way of inflation to cure inflation is very dangerous. Only by stabilizing the currency can we stabilize the market. Only by stabilizing the currency and the market can prices stabilize.

The rise in the overall price level plus the rate of economic growth equals the growth rate of the money supply. If this formula is used to calculate the money supply, the amount of money issued, or the total extent of credit, that is also very dangerous. The left side of the equation (the increase in prices and economic growth) and the right side (the growth of money supply) actually represent in our country the relations between "a hen laying eggs, and eggs producing hens." Due to no change in the pattern of economic growth (which remains to be growth of extensive operations), the stimulation of our country's economic growth has chiefly relied on increasing the amount of credit and the scale of construction. An increase in the amount of credit and in the money supply has made for economic growth and an increase in prices. The growth of extensive operations and the increase in prices have in turn forced a large increase in the amount of credit, the money supply, and the amount of money issued, thus likely giving rise to a vicious cycle or inflation "with stimulation from both directions."

At present, the most important thing to do is to tighten credit and the supply of money. But to guarantee the normal operation of existing enterprise production and operating activities, we must resolve to reduce the scale of capital construction. Governments at various levels must reduce the scope and scale of government investment. Meanwhile, government spending must be reduced. In granting loans, commercial banks in various categories at various levels should differentiate cases and take a strict or lenient attitude, as a case justifies. A strict attitude must be assumed toward capital construction projects, and a lenient attitude toward the working capital of existing enterprises. A strict attitude must be taken toward enterprises performing poorly and especially those operating at a loss, and a lenient attitude toward well-run enterprises. A strict attitude must be taken toward non-conformity with industrial policies, products policies, and import and export policies, and a lenient attitude where there is conformity with industrial policies, products policies, and import and export policies.

### PROVINCIAL

#### Beijing Tightens Control on Luxury Purchases

OW0710121688 Beijing in English 0917 GMT 7 Oct 88

[Text] Beijing, October 7 (XINHUA)—Beijing has cut back purchases of luxury consumer and other items by state organizations within the last month by 60 percent.



Last month, the city government imposed strict limits on the purchases of 19 items. These include cars, videos, photocopiers, carpets, color TV sets, and furniture.

According to a city government official, purchases of these items dropped from 14 million yuan last month to 5 million yuan.

But it will still be a problem to cut purchases by government institutions by one-fifth over the course of this year, as required by the central government, the official said.

### **Fujian Recovers Large Sums of Unpaid Taxes, Levies**

*OW1210120788 Fuzhou Fujian Provincial Service  
in Mandarin 1100 GMT 9 Oct 88*

[Excerpts] Fujian has achieved initial success in its tax inspection drive, which has been proceeding rapidly. After checking their own tax affairs, enterprises and institutions have started to check each other's tax payments. Statistics show that, by the end of September, tax authorities in Fujian had already recovered over 38 million yuan of unpaid taxes and levies for development of energy and communications systems, and had delivered nearly half of the money to the state treasury.

In August, after the Fujian Provincial Government transmitted the Fujian Taxation Bureau's measures for launching tax inspection throughout Fujian, all local authorities immediately drew up meticulous plans to support the drive. [passage omitted]

While urging the over 14,700 enterprises and institutions in the city to inspect their own tax affairs, tax authorities in Fuzhou have inspected over 2,700 units and found that over 1,500 of them—or 57.8 percent—had evaded tax payments. [passage omitted]

### **Opportunity for Guangdong in Asia/Pacific's Shifting Industrial Structure**

*40060113 Guangdong GANGAO JINGJI [HONG KONG & MACAO ECONOMIC DIGEST] in Chinese  
No 10, 15 Oct 88 pp 30-32*

[Article by Li Fu 6849 2329: "Guangdong Should Optimize Its Industrial Structure, Develop a Financial Market, and Improve Investment Climate"]

[Excerpt] Guangdong is both an essential part of the central government's coastal economic development strategy and a comprehensive experimental zone in reform and opening to the outside world. Exploiting the opportunity presented by the great industrial shift on China's doorstep and its superior geographical location, Guangdong should be able to achieve a good deal. However, it would do well to take note of some issues as it tries to develop an export-oriented economy by grasping this opportunity.

### **I. Avoid the Exclusive Pursuit of Labor-Intensive Industries and Take Pains To Optimize the Industrial Structure at the Appropriate Time**

An abundant source of labor has been, is, and will remain one of Guangdong's attractions to foreign investors. Nevertheless, Guangdong also should take care to fully exploit its economic basis and import advanced and even state-of-the-art high-tech, heavy, and chemical industries responsibly in order to speed up economic development.

In the past 10 years, Guangdong industry has rapidly increased its share of the province's economy; in 1987, the ratio of industrial output value to agricultural output value was 68.6:31.4. So far, though, Guangdong industry remains essentially light industry, 65.6 percent of all industrial output being accounted for by light industry. Although this industrial structure has been instrumental in accelerating the development of the Guangdong economy as a whole and boosting foreign trade, it has also constrained sustained rapid economic growth. Because the raw materials and energy required by light industry have not kept pace with the development of light industry, Guangdong industry has become excessively dependent on outside supplies, its self-sufficiency rate lower than 30 percent in many categories of raw materials. In 1985, for instance, 69 percent of its steel consumption came from outside the province. The figures for crude oil, soda, and 10 nonferrous metals were 98.6, close to 100, and 61.6 percent, respectively. The situation got worse in 1986 and 1987, a trend that will continue in the foreseeable future, to the detriment of Guangdong's economic development momentum. It is imperative, therefore, that Guangdong consider the adjustment of its industrial structure and the import of projects from a strategic angle. On the one hand, bearing in mind its strength, it must continue its push for export-oriented light and textile industries. On the other hand, it should accelerate the development of heavy and chemical industries at the right time, especially the energy, petrochemical, transportation, electrical machinery, and raw materials industries, so that related industries will develop in tandem and foster one another. Also, we should increase the added value of exports within the province and optimize the import and export mix even as we put the overall economy on a sound footing. There is much we can learn from the development of "Asia's four little dragons."

### **II. Attract More Foreign Capital and Make Full Use of Funds Within the Province**

Lack of funds is the trickiest problem in economic development in Guangdong at the moment, so the absorption of foreign funds remains an important fundraising method. From 1979 to 1987, Guangdong absorbed a total of \$5.57 billion in (actually used) foreign funds, the most in the nation. However, if we juxtapose this figure against the province's income, foreign trade,

government revenues, and other leading economic indicators, we will see that Guangdong has the ability to take on additional loans. We should work hard to attract more foreign capital. There is currently a large pool of idle funds in the world looking for investment opportunities. With its potential market of 1 billion people and the attractions of a developing economy, China is an ideal place to invest. As the southern gateway to China, Guangdong is well placed geographically and should grasp the right moment to absorb more foreign funds, including direct investment, the issue of international bonds, inter-bank cooperation, and low-interest government-to-government loans.

At the same time, Guangdong should fully utilize funds inside the province and transform short-term funds and consumption funds into long-term production funds, including savings deposits and cash in the hands of residents. According to statistics, urban and rural residents had a total of 33.375 billion yuan in savings accounts and over 2.2 billion yuan in cash on hand at the end of 1987. This is a major part of society's idle funds that should be fully utilized. We can issue a range of stocks and bonds. Banks also can collect fees and charges and pay wages on behalf of social organizations and enterprises. That way we can broaden the sources of economic construction funds and improve the effectiveness of fund utilization.

### 3. Improve the "Intangible Climate" for Investors

Faced with the opportunity presented by the shift in industrial structure in Asia and the Pacific, all developing nations are moving aggressively to accommodate themselves to this change. Since China is surrounded by countries and regions similarly endowed, the competition is bound to be fierce. To gain the upper hand in the competition, thereby upgrading its industries and developing an export-oriented economy, Guangdong must take vigorous measures to improve its intangible investment climate as well as speed up the development of such primary industries as energy, communications, and telecommunications. The intangible climate involves comprehensive and appropriate laws and regulations, policies offering even more preferential treatment, new thinking and a new value system, a corps of qualified personnel schooled in foreign economic relations who are familiar with "international practices," and a sound financial market, to name a few. Particularly noteworthy is the establishment of a sound financial market since the internationalization of the financial market is critical to the development of an export-oriented economy.

In its written review of Guangdong's report on reform, the State Council made financial reform the top priority and designated Guangdong as a experimental site for reform which is to stay one step ahead of the interior provinces. Accordingly, Guangdong should speed up reform with a free hand. In view of the province's actual

circumstances, Guangdong must take the following measures without delay to internationalize its financial market: 1) Go all out to develop a variety of financial institutions. State banks should expand the scope of their operations and transform themselves into commercial banks dealing in foreign currency domestically and abroad. Regional commercial banks should discharge both domestic and international banking functions. Depending on their area of specialization, banking institutions which are operating on a fairly large scale and have a good credit standing should enter into joint ventures with their overseas counterparts to set up banks and other banking institutions. A major effort should be made to attract foreign-funded or overseas Chinese-funded banks to set up branches or offices in the province; 2) Actively develop foreign banking operations and offer a diverse range of banking services in accordance with international practices. The foreign banking management system, currently highly centralized, must be reformed as soon as possible. In addition to the central bank and the General Administration of Exchange Control, banks and other financial institutions authorized by the government to handle foreign exchange business should be allowed to expand the scope of their operations such as offering chain services—making remittances in the original currency on behalf of an overseas bank and then depositing them in a foreign currency. If approved, banks and financial institutions should be allowed to set up business offices abroad or issue bonds and commercial notes on overseas stock markets. Inter-bank competition on an equal basis should be allowed; 3) Nurture an international financial market. The rapid formation of a financial market is a key prerequisite for financial internationalization. Guangdong must take advantage of the favorable policy that designates it as a reform experimental zone and quickly develops and perfects the functions of a financial market, including the establishment of a market for foreign exchange loans. We should issue commercial notes and bonds on the overseas market. Banks and enterprises which have adopted the share-holding system should be allowed to issue stock at home and abroad. A foreign exchange regulating center should be set up with its own network. The regulating center should gradually become a foreign exchange market where prices are deregulated. Trading in foreign exchange, both short- and long-term, should be launched; and 4) Step up research on and the forecasting of the international financial market in earnest to prevent its wild gyrations from disrupting the Guangdong financial market and even the entire economy.

The shift in industrial structure in Asia and the Pacific has barely begun. Guangdong should find its own niche in this transformation. Although there is an intermingling of hope and difficulty, opportunities come with challenges. After 10 years of reform and opening to the outside world, Guangdong's investment climate is improving steadily. As the trading center in south China that abuts Hong Kong and Macao and one of the first provinces to open to the outside world, Guangdong

boasts a commodity-mindedness and attraction to foreign investors that cannot be matched by the interior provinces. Moreover, Guangdong backs onto a hinterland containing a vast investment and consumption market, the perfect home for foreign capital. Guangdong should and must expose itself to the challenge of the great international circle and participate in international specialization and competition to upgrade its industries and develop its economy.

**Hebei To Conduct General Check of Companies**  
*OW2910081788 Beijing XINHUA Domestic Service  
in Chinese 0751 GMT 22 Oct 88*

[By reporter Luo Qi]

[Text] Shijiazhuang, 22 Oct (XINHUA)—This reporter has learned from a recent Hebei provincial telephone conference on a general inspection of companies that the number of various types of companies in Hebei has greatly expanded since the second half of 1987. By the end of June this year, some 13,789 companies had registered with the authorities; this is 5,100 companies, or 58 percent more than at the end of 1986. The number of companies run by organs directly subordinate to the province increased 340 percent. The Hebei Provincial Government recently made arrangements to conduct an overall check of these companies.

While making arrangements for the check, Vice Provincial Governor Ye Liansong said that some of these newly-established companies had all sorts of problems. Some 609 of them have government connections, enabling them to have both administrative and management power. Some have used this power to engage in commercial business, compete for profit with enterprises, or curtail the rights of enterprises to attain their own goals. Some have abused their authority of approval or disapproval, as well as their power over the distribution of materials or funds to collect illegal fees. Some party and government organs, as well as their cadres, have opened companies of their own. There are 260 such companies with 3,662 cadres directly engaged in business activities. Some of these companies have not severed their connections with the party or government organs, and some of them, even though declaring no connections with any party or government organs, are still secretly maintaining their relations with them. Some retired cadres are also using their "residue power" or "connections" to engage in business for themselves.

Ye Liansong said that some 68.9 percent of all the companies in Hebei are commercial in nature. Since the second half of 1986, 66.6 percent of the newly-established companies are commercial ones. Very few are production-orientated, able to create wealth for society. Some companies, disregarding state policies and regulations, have engaged in businesses beyond their authority. They vie to deal in important means of production and durable consumer goods in acutely short supply, thereby creating confusion in circulation.

For this reason, the Hebei Provincial Government recently made this decision: All companies which have integrated government administration with enterprise management, with the exception of those specially approved by the provincial government for the reason that separation of administrative power from enterprise management for these companies is difficult at the moment, shall have their administrative power severed from business management. All companies engaged in business should not have the power to oversee the entire profession, nor should they function as government organs. No administrative organ is allowed to engage in business. No party or government organ or social group is allowed to set up companies other than those already approved by the provincial government as well as those scientific and technological consultative stock companies which the social groups in science and technology are allowed to set up. Those already established should immediately sever their connections with party and government organs or social groups. Companies still secretly maintaining connections with party or government organs will have their operation suspended. Cadres participating in company activities should resign from their party or government jobs and be transferred to the companies. An overall inspection to check the title, capital, scope and type of business, location, and facilities of all companies will be conducted. Companies failing to meet the required conditions, but which are really needed by society, will be given support and ordered to make improvements within a certain time. Companies violating state regulations, choking circulation, lacking capital or facilities, without a clearly defined scope of operation, and without a fixed number of employees will be resolutely banned. Companies dealing in illegal businesses, engaging in profiteering in means of production or durable consumer goods in short supply, stirring up panic buying, engaging in hoarding and speculation, driving up prices, or selling imitation goods will be severely punished according to law, no matter who runs them.

**Shandong Jan-Sep Economic Development**  
*SK1910050088 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 18 Oct 88*

[Text] As has been learned from the provincial statistical bureau, while the entire national economy of our province maintained sustained development from January to September this year, some problems meriting our attention also emerged. From January to September, the output value of industrial production totaled 64.092 billion yuan, up 27.5 percent from the corresponding period last year. Due to serious damage caused by disasters and a reduction in cultivated land, the output of agricultural production declined compared with last year. Total grain output is expected to drop by approximately 6 percent from last year, cotton output may reach the same level as last year, and the output of oil-bearing seeds will decline by more than 10 percent. A good developing trend was maintained in animal husbandry and fishery production. The growth rate of fixed asset investments of the province slowed. Urban and rural markets of our province thrived and purchases and

sales were brisk. From January to September, the net volume of commodity purchases throughout the province showed a 28.1-percent growth over the corresponding period last year. The financial revenue of the province also increased.

Current difficulties and problems in our province's economy include the overheated economic development,

which calls for strengthened macro-control; the inordinately large price rises, with the general retail price index from January to September rising by an average 15.6 percent; the excessive issuance of currency; a failure to alleviate the outstripping of the general demand over the general supply; and the low comparable efficiency of agricultural production, which dampens the production enthusiasm of peasants.

### Principal Economic Statistics for Shanghai

HK1010140288 Beijing CEI Database in English 10 Oct 88

[Text] Shanghai (CEI)—Following is a chart showing the synopsis of Shanghai major economic indexes in the first eight months of this year released by the Municipal Statistical Bureau.

|   | Unit                  | Jan-Aug<br>1988 | Percentage<br>Over Jan-Aug<br>1987 |
|---|-----------------------|-----------------|------------------------------------|
| 1. Total Industrial Output Value                              | million yuan          | 69173           | 7.6                                |
| of which: Light Industry                                      | million yuan          | 38550           | 8.4                                |
| Heavy Industry  | million yuan          | 30623           | 6.6                                |
| 2. Freight Volume   | million tons          | 153             | 1.0                                |
| 3. Cargo Handled in Ports                                     | million tons          | 88              | 3.8                                |
| 4. Investment in Fixed Assets of State-Owned Units            | million yuan          | 7949            | 14.1                               |
| of which: Capital Construction                                | million yuan          | 5007            | 7.0                                |
| Renovation  | million yuan          | 2809            | 31.8                               |
| 5. Total Value of Retail Sales                                | million yuan          | 19401           | 27.9                               |
| of which: Consumer Goods                                      | million yuan          | 18269           | 28.1                               |
| of which: Food  | million yuan          | 7342            | 27.5                               |
| Clothing  | million yuan          | 3304            | 30.0                               |
| Daily Used Articles   | million yuan          | 7512            | 27.9                               |
| Fuels   | million yuan          | 112             | 28.2                               |
| 6. Total Value of Exports                                     | million \$            | 3103            | 14.4                               |
| of which: Light Industrial Products                           | million \$            | 1945            | 13.2                               |
| Heavy Industrial products                                     | million \$            | 648             | 26.8                               |
| Farm and Sideline Products                                    | million \$            | 510             | 5.7                                |
| 7. Total Value of Imports                                     | million \$            | 1417            | 39.5                               |
| 8. Utilization of Foreign Capital                             |                       |                 |                                    |
| Number of Contracts Signed                                    | items                 | 192             | 1.9                                |
| Value of Contracts Signed                                     | million \$            | 487             | 2.0                                |
| 9. Technology Import  |                       |                 |                                    |
| Contracted Value  | million \$            | 239             | -8.4                               |
| Executed Value  | million \$            | 105             | -36.7                              |
| 10. Overseas Visitors   | thousand person-times |                 |                                    |
| 11. Total Wages of Staff and Workers                          | million yuan          | 6436            | 23.0                               |
| 13. as received] Per Capita Monthly Wage of Staff and Workers | yuan                  | 161             | 22.1                               |
| 14. Private Savings in Urban and Rural Areas                  | million yuan          | 13693           | 19.7                               |

## INDUSTRY

### Main Industrial Goods for August

HK0310094788 Beijing CEI Database in English  
3 Oct 88

[Text] Beijing (CEI)—Following is a chart of the output volume of main industrial products in August, 1988, released by CSICSC.

| Item                         | Unit               | Jan-Aug 88 | Aug 88  | Percentage Over<br>Jan-Aug 87 |
|------------------------------|--------------------|------------|---------|-------------------------------|
| Bicycle                      | 10,000             | 2643.43    | 351.61  | 98.41                         |
| Sewing machine               | 10,000 sets        | 624.73     | 77.47   | 96.93                         |
| Watch                        | 10,000             | 3816.50    | 551.60  | 92.78                         |
| TV set                       | 10,000 sets        | 1498.37    | 219.20  | 124.07                        |
| Color TV                     | 10,000 sets        | 597.64     | 97.04   | 145.76                        |
| Radio                        | 10,000 sets        | 1013.95    | 115.20  | 91.79                         |
| Tape recorder                | 10,000 sets        | 1406.21    | 208.56  | 112.27                        |
| Washing machine              | 10,000 sets        | 671.35     | 90.14   | 95.60                         |
| Camera                       | 10,000 sets        | 167.56     | 20.53   | 118.97                        |
| Fan                          | 10,000 sets        | 3110.86    | 396.68  | 116.89                        |
| Refrigerator                 | 10,000 sets        | 435.38     | 64.93   | 186.61                        |
| Chemical fibre               | 10,000 tons        | 82.06      | 9.15    | 107.00                        |
| Yarn                         | 10,000 tons        | 305.96     | 38.87   | 107.68                        |
| Cloth                        | 100 million meters | 117.13     | 15.30   | 106.99                        |
| Chemical fibre Cloth         | 100 million meters | 42.93      | 5.43    | 108.38                        |
| Silk                         | 10,000 tons        | 3.05       | 0.42    | 92.99                         |
| Silk fabric                  | 100 million meters | 10.00      | 1.27    | 100.10                        |
| Woollen fabric               | 10,000 meters      | 17646.00   | 2355.00 | 104.13                        |
| Knitting wool                | 10,000 tons        | 13.10      | 1.70    | 113.42                        |
| Sugar                        | 10,000 tons        | 314.35     | 0.01    | 82.27                         |
| Salt                         | 10,000 tons        | 1441.60    | 123.60  | 125.76                        |
| Cigarette                    | 10,000 cases       | 1922.90    | 240.50  | 106.43                        |
| Machine-made paper and kraft | 10,000 tons        | 727.00     | 85.54   | 109.46                        |
| Newspaper                    | 10,000 tons        | 17.26      | 1.62    | 69.91                         |
| Anastatic Printing Paper     | 10,000 tons        | 48.50      | 6.20    | 103.94                        |
| Synthetic Detergent          | 10,000 tons        | 85.87      | 11.50   | 105.49                        |
| Bulb [as published]          | 100 million        | 12.00      | 1.47    | 107.33                        |
| Gasoline                     | 10,000 tons        | 1231.30    | 161.50  | 105.08                        |
| Kerosene                     | 10,000 tons        | 261.30     | 32.10   | 91.08                         |
| Iron ore                     | 10,000 tons        | 10233.30   | 1270.70 | 103.10                        |
| Pig iron                     | 10,000 tons        | 3753.80    | 470.80  | 105.55                        |
| Steel                        | 10,000 tons        | 3960.40    | 476.50  | 108.67                        |
| Rolled steel                 | 10,000 tons        | 3131.77    | 384.53  | 108.95                        |
| Wire rod                     | 10,000 tons        | 514.00     | 61.26   | 115.92                        |
| Steel plate                  | 10,000 tons        | 392.68     | 50.08   | 103.29                        |
| Coke                         | 10,000 tons        | 3140.19    | 399.04  | 106.41                        |
| Sulphuric acid               | 10,000 tons        | 734.00     | 09.53   | 116.51                        |
| Sodium carbonate             | 10,000 tons        | 166.65     | 18.98   | 108.25                        |
| Caustic soda                 | 10,000 tons        | 195.31     | 24.38   | 108.13                        |
| Ethylene                     | 10,000 tons        | 77.66      | 6.17    | 138.51                        |
| Purified benzene             | 10,000 tons        | 37.40      | 4.30    | 121.15                        |
| Synthetic ammonia            | 10,000 tons        | 1321.54    | 154.31  | 102.74                        |
| Fertilizer                   | 10,000 tons        | 1198.62    | 140.52  | 106.17                        |
| Nitrogenous Fertilizer       | 10,000 tons        | 922.12     | 106.04  | 102.61                        |
| Phosphoric Fertilizer        | 10,000 tons        | 272.22     | 33.73   | 120.63                        |
| Chemical pesticide           | 10,000 tons        | 14.18      | 1.74    | 75.11                         |
| Pharmaceuticals              | 10,000 tons        | 12.64      | 1.43    | 134.63                        |

| Item                       | Unit                 | Jan-Aug 88 | Aug 88  | Percentage Over<br>Jan-Aug 87 |
|----------------------------|----------------------|------------|---------|-------------------------------|
| Tyre                       | 10,000               | 1945.10    | 268.55  | 118.41                        |
| Synthetic rubber           | 10,000 tons          | 17.35      | 1.49    | 123.22                        |
| Plastic                    | 10,000 tons          | 103.09     | 12.26   | 106.63                        |
| Timber                     | million cubic meters | 3106.00    | 268.00  | 91.46                         |
| Artificial Board           | 10,000 cubic meters  | 175.28     | 22.97   | 118.56                        |
| Cement                     | 10,000 tons          | 13099.00   | 1801.50 | 113.03                        |
| Plate glass                | 10,000 tons          | 4500.59    | 571.62  | 127.22                        |
| Power equipment            | 10,000 kw            | 624.69     | 120.55  | 114.69                        |
| Machine tool               | 10,000 sets          | 11.60      | 1.48    | 119.59                        |
| Precision machine tool     | sets [as published]  | 841.00     | 92.00   | 110.51                        |
| Large machine tool         | sets [as published]  | 3104.00    | 358.00  | 121.49                        |
| Automobile                 | 10,000               | 41.52      | 5.74    | 137.57                        |
| Truck                      | 10,000               | 27.28      | 3.79    | 130.84                        |
| Tractor                    | 10,000               | 3.93       | 0.55    | 111.65                        |
| Small tractor              | 10,000               | 94.71      | 11.81   | 126.31                        |
| Locomotive                 | set                  | 572.00     | 78.00   | 94.08                         |
| Passenger car              | set                  | 1275.00    | 110.00  | 111.35                        |
| Freight car                | 1,000 sets           | 15660.00   | 2001.00 | 104.76                        |
| Internal Combustion Engine | 10,000 h.p.          | 3688.00    | 501.40  | 128.08                        |
| Civil steel ship           | 10,000 tons          | 60.37      | 5.72    | 64.98                         |
| Computer                   | sets                 | 160.00     | 16.00   | 390.24                        |
| Calculator                 | 10,000 sets          | 232.68     | 28.65   | 133.75                        |

# **August Textile Output Value by Areas**

HK0610153188 Beijing CEI Database  
in English 6 Oct 88

[Text] Beijing (CEI)—Following is a chart of textile output value by provinces, municipalities and autonomous region in August 1988, released by the Ministry of Textile Industry.

|                | 8/88<br>(Million yuan) | 1-8/88<br>(Million yuan) | Percentage<br>Over 1-8/87 |
|----------------|------------------------|--------------------------|---------------------------|
| Total          | 9,410.57               | 73,244.16                | 9.65                      |
| Beijing        | 213.19                 | 1,714.51                 | 4.32                      |
| Tianjin        | 352.61                 | 2,777.24                 | 1.54                      |
| Hebei          | 487.13                 | 3,779.03                 | 14.93                     |
| Shanxi         | 163.87                 | 1,244.24                 | 13.83                     |
| Inner Mongolia | 109.09                 | 752.75                   | 28.96                     |
| Liaoning       | 508.89                 | 4,133.30                 | 3.31                      |
| Jilin          | 133.96                 | 1,116.84                 | 4.53                      |
| Heilongjiang   | 222.49                 | 1,751.40                 | 7.96                      |
| Shanghai       | 1,080.61               | 8,480.90                 | -1.00                     |
| Jiangsu        | 1,271.55               | 10,748.47                | 7.56                      |
| Zhejiang       | 415.00                 | 3,269.20                 | 6.89                      |
| Anhui          | 299.37                 | 2,229.88                 | 9.27                      |
| Fujian         | 156.92                 | 1,275.22                 | 19.67                     |
| Jiangxi        | 135.06                 | 1,171.71                 | 5.62                      |
| Shandong       | 815.14                 | 6,083.50                 | 20.03                     |
| Henan          | 476.14                 | 3,526.03                 | 19.04                     |

|                              | 8/88<br>(Million yuan) | 1-8/88<br>(Million yuan) | Percentage<br>Over 1-8/87 |
|------------------------------|------------------------|--------------------------|---------------------------|
| Total                        | 9,410.57               | 73,244.16                | 9.65                      |
| Hubei                        | 701.48                 | 5,372.36                 | 10.39                     |
| Hunan                        | 275.87                 | 2,213.77                 | 10.70                     |
| Guangdong                    | 516.08                 | 3,763.35                 | 28.56                     |
| Guangxi                      | 139.17                 | 951.37                   | 13.52                     |
| Hainan [no<br>figures given] |                        |                          |                           |
| Sichuan                      | 333.09                 | 2,396.97                 | 12.27                     |
| Guizhou                      | 39.88                  | 278.83                   | 19.82                     |
| Yunnan                       | 63.50                  | 490.17                   | 9.83                      |
| Tibet                        | 0.37                   | 6.38[as published]       |                           |
| Shanxi                       | 292.66                 | 2,182.43                 | 4.08                      |
| Gansu                        | 68.08                  | 530.89                   | 14.48                     |
| Qinghai                      | 18.30                  | 150.84                   | 11.84                     |
| Ningxia                      | 18.89                  | 150.59                   | 32.00                     |
| Xinjiang                     | 102.18                 | 701.99                   | 9.55                      |

**Beijing Industrial Production Increases**  
*OW1210092688 Beijing XINHUA in English*  
1125 GMT 11 Oct 88

[Text] Beijing, October 11 (XINHUA)—The total industrial production volume of Beijing reached 3,803 million yuan in September, 21.3 percent more than September last year, according to the municipal Statistics Bureau.

The production volume for the first three quarters of this year was 30,907 million yuan, 15.8 percent more than in the same period last year.

Light industry is growing faster than heavy industry this year, respectively rising 17.4 percent and 14.6 percent in the first nine months of 1988.

Output of the products needed most in the market is growing even faster, among them, finished steel products (11.4 percent), automobiles (22.5 percent), refrigerators (13 percent), plate glass (21.6 percent), tape recorders (30.2 percent) and silk textiles (200 percent).

**Yunnan Electronics Industry Growing at 20.6 Percent Annually**  
*400601096 KUNMING JINGJI BAO in Chinese*  
21 Sep 88 p 3

[Article by Shao Guang [4801 0342]: "Yunnan Electronics Industry Sets Ambitious Targets for Year 2000"]

[Text] The electronics industry of Yunnan Province was born in 1969 and has been growing ever since. In the 17 years between 1970 and 1987, the industry's output value increased at an average annual rate of 20.6 percent. Particularly after the 3d Plenum of the 11th CPC Central Committee, it has carried out technological transformation, imported technology, and based the industry in

urban centers in an effort to rationalize its geographical distribution. Over the past nine years, the industry has been advancing steadily at a brisk pace.

The gross output value of the industry reached 184,520,000 yuan in 1987, more than an eight-fold increase over that of 1978, which was 21,310,000 yuan. Industry-wide, profits and taxes amounted to 13,590,000 yuan, of which profits made up 8.54 million yuan. The overall labor productivity was 26,210 yuan. Among the major products were 106,000 television sets, including 45,000 color sets; 1,023 computers; 5,000 radio-telephones; 188 pieces of electric mechanical equipment; and over 40,000 pieces of electronic products for use in industry, agriculture, transportation, and communications.

The province's electronics industry includes 24 production enterprises and other units such as electronic research institutions, electronic equipment companies, electronic technical schools, electronic product quality control and testing stations, and the Yunnan Computer Software Technology Development Center. Among the more advanced of its existing production lines are a microcomputer production line with an annual production capacity of 10,000 units; a black-and-white television set production line, 100,000 units; a color television set production line, 150,000 units; a radio-telephone production line, 10,000 units; and a silicon solar cell production line, 500 kilowatts. Additionally, there is a piece of 5,000-gram injection molding equipment and another piece of 3,000-gram plastic spraying equipment.

The electronics industry of Yunnan Province boasts the following technologies: computer applications technology and networking technology; numerical control and digital display technology; radio communication and networking technology; ground satellite station reception

technology; the injection molding, electroplating, and spraying techniques of plastic products; miscellaneous surface treatment techniques; electronic anti-burglar alarm systems; die design and manufacturing; offset printing and the manufacturing of printed circuit board and process; numerical control line cutting, die casting and other forms of mechanical processing; shared antenna system and closed circuit television technology; and microwave testing meter and microwave energy application technology.

Since 1982, eight Yunnan electronic products have successively been deemed good-quality products by the province, including the Model 135 small computer, a 12-inch and a 14-inch black/white television sets, a transistor electric gas pump, and a radio telephone. In 1987, Nantian's 0530 microcomputer was designated by the Electronics Vitalization Office of the State Council as a state selected machine. Yunnan computers and communications equipment sell well throughout the nation. The "Shancha" brand color television set, a machine of dependable quality, is doing so well that supply cannot keep up with demand. Other electronic products are constantly being improved and new products appear all the time.

The electronics industry of Yunnan Province has come up with a lineup of high-tech products characterized by microelectronic technology. It provides technical equipment for other industries in the province and is helping to improve the standard of the material and cultural life of all nationalities in Yunnan.

By the year 2000, the gross output value of the industry will hit 1.2 billion yuan, 60 times that of 1980. There will be six major categories of products: the computer and its applications industry; communication systems; television sets and other broadcasting products; special semiconductor and other instruments; electronic materials; and integrated electrical machinery. Exports are expected to total \$50 million.

To achieve the above objectives and speed up the development of Yunnan's electronics industry, we warmly welcome friends from all quarters, at home and overseas, to assist and guide its development. You are welcome to come here to talk business with the industry and cooperate with it. Yunnan's electronics industry is your faithful friend and reliable companion.

## SMALL-SCALE ENTERPRISES

**Private Enterprises Welcomed in Rural Areas**  
*OW1510065888 Beijing XINHUA in English*  
1050 GMT 13 Oct 88

[Text] Beijing, October 13 (XINHUA)—Private enterprises in China's rural areas are proceeding to play a major role in revitalizing the local economy and are welcomed by local people.

A survey done among 97 rural private enterprises in various parts of the country shows that they employ about 10 percent of local labor forces but their income occupies about 18 percent of the total income of their home villages.

In 1987 their fixed assets were worth [figure indistinct] yuan, 20 percent of their villages' total, the paper [not specified] reported.

They can make 26 yuan out of every 100 yuan they invest in production but their collectively-run counterparts can only make 18 yuan. And, on average, every employee in private enterprises can hand in 487 yuan per year to the state as tax but his counterpart in a collectively-run enterprise, only 302 yuan.

And they put 63.8 percent of their profit into reinvestment but only 9.1 percent into household consumption.

In 1987, each private employer earned an average annual income of 35,500 yuan, the paper reported.

Of the employees answering the questionnaires, 46 percent said they joined the enterprises to earn more and 21 percent want to learn technical skills.

About 9.2 percent of those surveyed said that their living standards have improved substantially and 78 percent said their lives are better than before since they started to work in private enterprises.

Moreover, 243 villagers who are not working in private enterprises agreed that the development of private enterprises is owing to the implementation of the local government's policy.

But they also hold that the existence of private enterprises has expanded the gap between the rich and the poor, although they agree that their employers' income is reasonable.

About [figure indistinct] villagers questioned want to own private enterprises themselves, the paper said.

## CONSTRUCTION

**XINHUA Reviews Major Construction in Past Decade**  
*OW0810071588 Beijing XINHUA Domestic Service*  
in Chinese 0710 GMT 1 Oct 88

[By reporter Xu Kehong]

[Text] Beijing, 1 Oct (XINHUA)—China's achievements in the construction of key projects have become the focus of world attention. Nearly 1,000 large and medium projects have been completed and put into operation, and nearly 2,000 projects have been partially put into operation during the period of 10 years of reform and the



open policy. These key projects, together with the backbone projects completed in the early stage since the founding of the Republic, look like a giant standing on 9.6 million square miles of land, propping up the lofty mansion of China's economy. They greatly boost the capacity of current industrial production and, above all, keep substantial strength in reserve for China's economic development.

According to the department concerned, the state has provided great support in various fields to ensure the success of these key projects even though the financial resources at its disposal are limited. The statistics show that China has invested more than 700 billion yuan in the capital construction of state-owned units during the 10 years from 1979 to 1988. Over 50 percent of them are committed to energy, communications, and the raw and semi-finished materials sectors. The period of reform and the open policy in the past 10 years has been the "golden age" of China's energy construction. A total of 119 large and medium coal mines were completed and put into operation during this period. China has concentrated its efforts on developing such large opencut coal mines as Shanxi's Pingshuo and Inner Mongolia's Huolin He, and such large modern coal production bases as Shanxi's Gujiao, Anhui's Huainan, Shandong's Yanzhou, and Henan's Pingding Shan, thereby increasing the coal mining capability by 160 million metric tons and making contributions to easing the contradiction between the supply and demand of coal.

The achievements in electric power construction are even more splendid. On the one hand, China took advantage of coal resources to build a large number of pithead electric power stations in Shanxi, Inner Mongolia, along both banks of Huai He and the northern bank of Wei He, and in western Henan. They form a base of thermal power stations with substantial output. On the other hand, China has concentrated its efforts on developing the hydroelectric resources by building a number of large hydropower stations including the Gezhouba key hydropower control project, which has a total installed capacity of 2.715 million kilowatts and is the largest of its kind since the founding of the Republic, in the mainstream and tributaries in the middle and upper reaches of the Chang Jiang, the upper reaches of the Huang He and the Hongshui He, and the Songhua Jiang valley. The installed capacity has been increased in recent years. Current annual installed capacity has exceeded eight million kilowatts, which is equivalent to the total installed capacity in the five years of the Third 5-Year Plan. Most of the existing 100 generator units or so, which have a capacity of over 200,000 kilowatts, were put into operation during these 10 years. The total installed capacity of newly installed generator units reached 48.18 million kilowatts in the 10 years. The annual electric power production in 1987 registered a growth rate of nearly 100 percent over that in 1978. Thanks to the development of major oilfields, the output of petroleum, which is called "liquid gold," has also been increased to over 100 million metric tons.

Focusing on tapping the resources of metallurgy, nonferrous metal, petrochemicals, building materials, and timber, besides the energy industry, China has also set up and renovated a large number of large and medium backbone enterprises that are installed with excellent facilities for the production of raw and semi-finished materials at higher technical and economic levels. The capacity of the first phase project of Shanghai's Baoshan Iron and Steel Complex on the coast of the East China Sea, when put into operation, reached three million metric tons, contributing to China's bid to top 50 million metric tons of annual steel production. In concert with the economic development in southeast China, central and west China's newly established brass production base in Jiangxi, aluminum plant in Guizhou, and cement factory in Liuzhou demonstrate the gradually rationalized and balanced overall arrangement of the national economy. Furthermore, the completion and commencement of commercial production of the Daqing and the Yangzi 300,000 metric tons capacity ethylene projects have made direct contributions to improving the living standards of our people.

Improving and developing the railway transportation, with the emphasis on boosting the capability of coal transportation, and speeding up the establishment of an integrated transportation system are the near-term targets of key state constructions. The completion or partial completion of 18 double-track railways, including the Daqin Railway Project, and the electrification of Beijing-Baotou, Shijiazhuang-Taiyuan, Beijing-Qinhuangdao, and Taiyuan-Jiaozuo railways have improved China's railway transportation in the past 10 years. During this period, China built new railways with a total operating mileage of 5,000 kilometers; it also built over 20,000 kilometers of highways and renovated the 1,000 kilometers-long Qinghai-Tibet highway meandering on the rooftop of the world. The development of transportation by civil aviation and inland rivers has also shared some of the railways' burden.

More than 150 wharf berths were added to China's long coastline from the Bohai Wan to the Beibu Wan [the Gulf of Tonkin] in the past 10 years. They have increased the cargo handling capability at coastal harbors by 174.86 million metric tons, more than the sum total of the increases in the first 26 years following the First 5-Year Plan. This fully reflects the characteristics of China's key projects in stepping up the construction of infrastructure for direct contacts with foreign countries in order to meet the needs of opening to the outside world.

**Curtailment of Building Construction in Beijing**  
*OW2210130788 Beijing XINHUA Domestic Service*  
*in Chinese 1547 GMT 14 Oct 88*

[By reporter Xu Kehong]

[Text] Beijing, 14 Oct (XINHUA)—It was learned that the investigation team reorganized by the State Council to check the construction of office buildings, auditoriums, and guesthouses in the Beijing area will stress

checking projects central departments and Beijing Municipality are building; and office buildings, auditoriums, and guesthouses built by various districts and counties under Beijing Municipality. It will also seriously check on auxiliary construction projects for the Asian Games. At present, the State Council work team has already started checking on various projects.

It was learned that, at a recent meeting, the State Council's leading group for checking on fixed investment pointed out that an earlier investigation and checking on Beijing area construction of office buildings, auditoriums, and guesthouses set a good start for the whole country and played a significant role. However, the work was not done in a thorough manner because it did not touch those projects which are under construction and construction projects of various districts and counties under the municipality. Therefore, the current investigation and checking will be conducted in a stricter manner. In checking on the construction of auxiliary projects for the Asian Games, stress will be laid on checking "hidden" items. A person of a concerned department said that the large number of construction projects being built by central departments and Beijing Municipality and the numerous district and county level construction projects are the main reason construction of office buildings, auditoriums, and guesthouses in the Beijing area could not be curtailed. Stressing the checking of those items can solve the key problem.

It was also learned that, according to a State Council leading comrade's suggestion, Beijing Vice Mayor Zhang Baifa will be appointed an additional deputy head of the State Council investigation team for checking on the construction of office buildings, auditoriums, and guesthouses in the Beijing area.

**Guangzhou Halts Capital Construction Projects**  
*OW2310182788 Beijing XINHUA Domestic Service  
in Chinese 0858 GMT 21 Oct 88*

[Text] Guangzhou, 21 Oct (XINHUA)—The Guangzhou City Leading Group on Checking on Investment in Fixed Assets recently decided to halt the construction of the Baihuayuan Hotel and 12 other projects involving office buildings, auditoriums, and guesthouses, covering some 312,200 square meter floor space and with a total investment of \$200 million and 49.1 million yuan.

The construction projects that Guangzhou City has decided to suspend involve large hotels, office buildings, and guesthouses, including Huangpu Economic and Trade Building, China Grand Hotel, Telecommunications Building, and Jinmei Hotel. The city government has also decided to honor contracts already signed for the construction of Sino-foreign joint ventures or cooperative ventures and to ensure their completion according to schedule.

**Liaoning Curtails Construction Projects**

*SK2910033088 Shenyang Liaoning Provincial Service  
in Mandarin 1030 GMT 27 Oct 88*

[Summary] Liaoning Province has concluded the initial work of screening office building, hostel, and guesthouse construction projects. As of now, the provincial party committee and the provincial people's government have jointly decided to suspend or delay the construction of 77 items in 3 office building, hostel, and guesthouse projects, including 44 items which are under construction and 33 items which have not yet started. The total acreage of floor space of these suspended or delayed items reaches 474,000 square meters. Of this total, that of items under construction reaches 234,000 square meters and that of items which have not yet started reaches 240,000 square meters. The sum total of investment curtailed in these suspended or delayed items reaches 500 million yuan. According to the provision of the State Council, the construction of all items which have been delayed during the curtailment cannot start within the three years from 1988 to 1991. In reviving the items for which construction has not yet begun, it is necessary to apply for another approval from the higher authorities after the restricted date.

**Shandong Cuts Back on Building Projects**

*SK2910031288 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 27 Oct 88*

[Excerpts] By earnestly implementing the decision made by the State Council on thoroughly screening the projects of constructing office buildings, hostels, and guesthouses, the provincial level organs have suspended or delayed the construction of 12 items in their projects, in which more than 100,000 square meters of floors pace and more than 100 million yuan in investment have been curtailed.

In accord with the provision of the State Council, the provincial people's government has screened in an overall way the projects of provincial level organs on constructing office buildings, hostels, and guesthouses in the city of Jinan and analyzed them one by one. It has decided that construction on all items where 50 percent of the investment has not been fulfilled or which have not yet begun should be suspended or delayed. The government has also decided to suspend or delay the 12 construction projects in the first group. [passage omitted]

The provincial people's government has also urged the provincial level organs to enhance maintenance and management over these suspended or delayed projects and to do a good job in dealing with the aftermath of curtailment to reduce losses as much as possible.

## COMMERCE

### Manufacturers Complain About Controlled Prices *OW0710082888 Beijing XINHUA in English* *0215 GMT 7 Oct 88*

[Text] Beijing, October 7 (XINHUA)—Manufacturers in cities say they are being forced to get round low state-fixed prices of some of their products by transporting and selling them elsewhere where prices are higher.

For example, Shanghai manufacturers of woolen blankets sell the blankets in other cities for 180 yuan, 40 yuan more than the state-controlled price in Shanghai.

The manufacturers say they are forced to sell their products in other cities because the government has fixed many prices too low. At the same time, raw materials are expensive and in short supply, they say.

Manufacturers say they have to buy raw materials through middlemen at inflated prices. An aluminium factory in Shanghai buys raw materials at 16,500 yuan a ton through official traders, four times the fixed price.

"If we sell the finished products locally at the fixed prices, we will run in the red," one manufacturer says.

### Price Index for 29 Cities *HK0310100988 Beijing CEI Database in English 3 Oct 88*

[Text] Beijing (CEI)—Following is a chart of price index and index of living costs in 29 big and medium cities in July 1988, released by CSICSC.

|              | Price Index of Retail<br>Sales of Whole Society | Price Index of Living<br>Expenses of Employees | Including: Price<br>Index of Services |
|--------------|---|--|---------------------------------------|
| Beijing      | 125.9   | 124.1  | 106.2                                 |
| Tianjin      | 122.6   | 121.4  | 103.5                                 |
| Shijiazhuang | 124.4   | 123.2  | 109.8                                 |
| Taiyuan      | 125.8   | 124.0  | 104.4                                 |
| Hohhot       | 122.4   | 121.0  | 105.1                                 |
| Shenyang     | 120.4   | 119.0  | 104.0                                 |
| Changchun    | 121.8   | 122.2  | 127.4                                 |
| Harbin       | 117.5   | 116.4  | 104.6                                 |
| Shanghai     | 124.2   | 123.2  | 114.4                                 |
| Nanjing      | 125.3   | 123.6  | 105.0                                 |
| Hangzhou     | 122.7   | 121.2  | 103.9                                 |
| Hefei        | 126.4   | 124.6  | 105.5                                 |
| Fuzhou       | 130.1   | 129.8  | 127.6                                 |
| Nanchang     | 135.8   | 133.4  | 107.9                                 |
| Jinan        | 128.8   | 127.3  | 106.9                                 |
| Zhengzhou    | 127.9   | 126.6  | 113.5                                 |
| Wuhan        | 121.6   | 120.1  | 104.1                                 |
| Changsha     | 126.5   | 125.0  | 108.6                                 |
| Guangzhou    | 127.5   | 125.5  | 109.5                                 |
| Nanning      | 118.7   | 118.4  | 115.1                                 |
| Chongqing    | 116.1   | 115.1  | 106.5                                 |
| Chengdu      | 121.6   | 120.5  | 111.0                                 |
| Guiyang      | 125.1   | 123.2  | 102.8                                 |
| Kunming      | 123.8   | 122.3  | 108.7                                 |
| Xi'an        | 118.5   | 118.4  | 117.4                                 |
| Lanzhou      | 125.7   | 125.4  | 121.9                                 |
| Xining       | 121.3   | 120.8  | 115.4                                 |
| Yinchuan     | 116.2   | 115.4  | 107.1                                 |
| Urumqi       | 122.8   | 120.6  | 100.8                                 |

# Free Market Goods' Price Index

HK0410101188 Beijing CEI Database in English  
4 Oct 88

[Text] Beijing (CEI)—Following is the price index of goods in free market trade in July 1988, released by CSICSC:

(Note: price of the same period of last year as 100.)

|  | National Including: | Town  | Countryside |
|--|---------------------|-------|-------------|
| General Index                                      | 131.3               | 127.7 | 133.2       |
| A. Price Index of Consumer Goods                   | 128.6               | 127.7 | 128.9       |
| 1. Grain   | 117.2               | 122.5 | 116.4       |
| 2. Edible Vegetable Oil                            | 111.9               | 113.2 | 111.6       |
| 3. Vegetables                                      | 125.8               | 125.4 | 126.1       |
| 4. Dried Vegetables                                | 123.0               | 122.6 | 123.1       |
| 5. Meat, Poultry, Eggs                             | 137.3               | 133.5 | 138.9       |
| 6. Aquatic Products                                | 123.3               | 124.3 | 122.9       |
| 7. Fruits  | 125.2               | 123.9 | 125.9       |
| 8. Dried Fruits                                    | 114.3               | 109.3 | 116.5       |
| 9. Daily Necessities                               | 119.5               |       | 119.5       |
| 10. Others   | 149.1               | 137.7 | 151.8       |
| B. Price Index of Agricultural Means of Production | 154.5               |       | 154.5       |
| 1. Forage  | 125.5               |       | 125.5       |
| 2. Farm Tools                                      | 121.0               |       | 121.0       |
| 3. Poultry, Pigs, Sheep and Goats                  | 195.5               |       | 195.5       |
| 4. Large Domestic Animals                          | 118.9               |       | 118.9       |
| 5. Bamboo and Timber                               | 134.3               |       | 134.3       |

## FOREIGN TRADE, INVESTMENT

### Volkswagen To Increase Commitments

36200042b Frankfurt/Main FRANKFURTER  
ALLGEMEINE in German 14 Oct 88 p 16

[Text] The Wolfsburg Volkswagen corporation is as willing as ever to apply its top technology to the development of the Chinese automobile industry, and will further increase its commitment in the future. This was stated by Peter Frerk, member of the board of directors of Volkswagen AG, at the economic symposium of the newly founded German-Chinese economic circle in the East Asian Association in Hamburg. The occasion was the state visit of Chinese Vice Premier Yao Yilin to the FRG, which had also brought him to the Wolfsburg Volkswagen company on the same day. In Frerk's words, Volkswagen appraises the commitment in China to date as "very positive." The joint enterprise Shanghai-Volkswagen Automotive Co. Ltd (SVW), one of the earliest and largest joint enterprises of automobile production with Chinese and foreign capital investment, with approximately 2,200 workers produces today about 15,000 VW Santanas per year; the capacity is constantly being expanded and is to reach 30,000 vehicles by the beginning of the 1990's. Three Chinese partners and the Volkswagen AG share (50 percent) in the capital stock of SVW of approximately DM175 million.

A second, complementary commitment in China, Frerk explained, is the contract signed in 1988 with the First Automobile Works (FAW)—an important producer of trucks—in Changchun. It provides for an extensive technology transfer for the production of larger vehicles on the basis of the Audi 100 as well as delivery of production installations and parts. A preliminary capacity of 30,000 vehicles per year is aimed at. It is to be expanded later to 150,000 vehicles annually. Frerk spoke about a "declared goal of Volkswagen and FAW to found a joint enterprise for a large-scale automobile project by the end of 1990."

In the nationalization of production and, thus, the development of Chinese subcontracting companies, Volkswagen also makes its production and manufacturing technology available and uses experts on location. Within a very short time a nationwide customer service for Volkswagen and Audi vehicles has been built up. Meanwhile SVW has almost 40 service stations under contract. SVW has also introduced a training system which is exemplary even by international standards.

According to Frerk, Volkswagen counts on a continued positive political and economic development in China which would promise a predominantly favorable investment climate and considerable growth opportunities in the coming years. The reforms have led to considerable

successes, and the upswing in the Chinese economy must be seen as a direct result of political stability. The difficulties arising at present are a natural consequence of the high growth rates of recent years. "We do not consider that an obstacle for foreign investments," stated the member of the VW board of directors; "rather, we continue to recognize an enormous potential for change in economic policy in China."

**Guangzhou Fair Attracts Taiwan Businessmen**  
*OW2910004188 Beijing XINHUA in English*  
1556 GMT 27 Oct 88

[Text] Guangzhou, October 27 (XINHUA)—A record number of 969 Taiwan businessmen registered at the 64th Autumn Guangzhou Export Commodities Fair during its first 10 days, XINHUA learned today.

Most of the visitors came to the fair for the first time and many were accompanied by business acquaintances from the mainland and Hong Kong, according to an official at a special "Taiwan Compatriots Consultative Counter."

"They come immediately to the counter to consult on matters such as investment on the mainland, then they rush to the appropriate negotiation rooms to hold trade talks or discuss economic exchange and cooperation," the official said.

He explained that in the past most Taiwan business people came to the fair just for a visit. But now, he said, they sincerely want to do business with their mainland counterparts, although they may have come to the mainland under the guise of visiting relatives.

Rooms set aside for business representatives from Fujian Province, Taiwan's nearest neighbor, seem to be the most popular with Taiwan business people. The exhibitions from the Xiamen Special Economic Zone also draw large numbers of Taiwan merchants almost every day.

They come to get information on investing in enterprises, the supply of materials, and regulations on imports and exports. Many potential investors are interested in projects like textiles and livestock breeding, the official told XINHUA.

Some will take trips to the special economic zones to see conditions for themselves after the fair is over, he added.

Some Taiwan business people who have already invested in or have trade ties with mainland enterprises have also been active in making new contacts at the fair.

Since 1979, when the mainland encouraged trade with Taiwan, entrepot trade between the mainland and Taiwan through Hong Kong amounted to six billion U.S. dollars from 1979 to 1987 and this year's trade volume is expected to break two billion yuan, according to sources of the fair.

"There is an irresistible trend to the development of trade between the mainland and Taiwan, and people on both sides of the Straits are encouraged to see the rapid development of the trade," said the official at the consultative counter.

"But entrepot trade is not in line with the people's interests on both sides of the Straits," he stressed. "We hope that the Taiwan authorities will lift the ban on direct trade with the mainland, in order to bring better economic benefits to both sides."

**Discussion of Strategies for Direct Investment Abroad**

*4006085 Beijing GUOJI MAOYI WENTI*  
*[INTERNATIONAL TRADE JOURNAL] in Chinese*  
No 9, 30 Sep 88 pp 22-26,48

[Article by Du Qiang 2629 1730, Fujian Academy of Social Sciences: "Strategies in International Investment Risk and China's Direct Foreign Investment Abroad"]

[Excerpt] Since the Third Central Committee Plenum of the 11th Party Congress, it has been a basic policy of the state to open up China. At the same time that China has been attracting foreign investment, it has begun to participate in investment abroad. According to preliminary statistics, from the end of 1979 to the end of 1986, China has directly invested in 227 non-trade enterprises abroad, and has contributed \$230 million out of total investments of \$400 million. At present, China's direct investment abroad exhibits the following characteristics:

1. Most investments have been small in scale, primarily in medium and small enterprises. Approximately 98 percent of China's direct investment abroad has gone to medium and small enterprises, with an average investment of only \$1.762 million.
2. The purpose of these investments has generally been to acquire natural resources unavailable in China. Most Chinese direct investment abroad to date has been intended to secure natural resources. Most investment has taken the form of compensation trade, realizing profit through the production of physical goods. In Latin America and West Africa we have established enterprises in fishing and forestry, and in Australia and Canada are engaged in joint ventures in iron, copper, and gold mining.
3. We have generally chosen to invest in developing countries. According to preliminary statistics, China's non-trade enterprises making direct investment abroad is spread over 53 countries and regions. Of these 37, or 70 percent, are developing nations in Asia, Africa, and Latin America. Enterprises which combine trade, technology, and industry or consulting firms have been relatively concentrated in the developed nations.

4. Economic returns on investments have been rather good. Not including the Hong Kong and Macao area, financial indicators of the 103 enterprises already in operation out of the 197 non-trade enterprises China has invested in from 1979 through June 1986 show the following: 42 of these enterprises, or 40.8 percent, have made a profit; the revenues and expenditures of 50 (48.5 percent) are balanced; and 11 enterprises (10.7 percent) have operated at a loss. China has invested a total of \$200 million in 93 enterprises in the transportation and shipping sector and earned a total of \$400 million in profits and wages.

Direct investment abroad is an inevitable part of the internationalization of a localized economy. Both in theory and practice Chinese direct investment abroad is still in the beginning stages. More exploration is necessary. In this writer's opinion, if China is to promote its enterprises with direct investment abroad and cause them to prosper, it must take the following macroeconomic steps:

1. Carry out scientific research of investment risks. If one is to decide whether direct investment is advisable, a feasibility study must first be carried out on the project under consideration. One should, in the spirit of seeking truth from facts, use macroeconomic and microeconomic investigative models to estimate investment risks, determine feasibility, and decide whether to invest or not. Specifically, macro-feasibility and micro-feasibility studies on direct investment abroad are needed.

Macro-feasibility studies are generally carried out on the basis of individual countries. The purpose is to analyze the overall investment environment in the capital-importing country. Moreover there should be a comprehensive evaluation of the political, economic, and social conditions of the country. For example:

Capital-importing country's political situation—Is there war, revolution or unrest?

Economic policies—Are economic policies frequently promulgated and retracted? Do the policies stand for a long time? Are the economic cycles stable?

Legal environment—Are the laws complete and are they enforced fairly?

Natural resources—What is the quantity, distribution, and difficulty of exploitation? Is foreign capital allowed in their exploitation?

Manpower—What is the quantity and quality of the available labor pool? What is the level of education and professional training? Quality of management? Labor cost?

Development strategy—Is it aimed at import substitution, export-led development, or both?

Financial situation—Can capital be coordinated? What is the situation of international payments, foreign debt, and the level of foreign exchange reserves?

Exporting conditions—What do they export, where are their markets, and what is their exporting potential?

A micro-feasibility study is an evaluation of the environment in which the individual enterprise being considered for investment must operate, including the goal of the investment, legal regulations governing the investment, choosing the form of the investment (sole proprietor, joint venture, cooperative, and the three forms of investment and compensation trade), infrastructure, how conflicts over the investment will be solved, and the cost of the investment and the expected return.

Only by ascertaining the macro-environment for investment in individual countries which will import capital, as well as the micro-environment for individual enterprises, and choosing for our investments countries or regions with the best environment and relatively low risks, will we come closer to achieving our goals for investment abroad.

2. We must promote and improve measures which will protect our investments abroad. Firstly, we must negotiate with capital-importing countries to sign bilateral or international, multilateral investment protection agreements to protect China's foreign investors. To date we have already signed mutual investment protection agreements with the United States, West Germany, Japan, Romania, and Sweden. Secondly, we must establish specialized insurance organizations overseas. Chinese insurance companies do no business overseas, and have no provisions covering investment abroad. However, Chinese investment abroad has just begun, so insurance for this type of investment has not been organized yet. In order to assist in and promote the development of Chinese multinational companies and corporations with investment abroad, we must establish an insurance organization to protect investments abroad against political dangers such as nationalization, war, and capital transfer difficulties.

3. In order to achieve different investment goals, there must be a rational selection of investment locale. There are four basic purposes behind direct investment abroad: (1) to lower costs; (2) to expand markets; (3) to acquire resources; (4) to utilize foreign exchange.

As a general rule, if the purpose of investment is to lower costs, the best country or territory in which to invest is one which can provide high volume production at low cost. Utilizing more cost effective production factors will achieve investment goals.

If the purpose of investment is to acquire resources, a country or territory should be chosen which is abundant in resources and allows foreign development in this area. Adopting compensation trade replaces the goal of earning a profit.

If the investment abroad is intended to expand markets and increase exports, we should choose countries or regions with big markets, strong purchasing power, and similar consumption habits; countries which would stimulate our exports of equipment, semi-finished products, and raw materials. In order to increase exports, it is necessary to protect traditional export markets, avoid tariff and trade barriers, and take advantage of the trade quotas and favored status accorded by the importing countries.

If the purpose of direct investment abroad is to utilize foreign exchange and indirectly import technology and advanced management techniques, the best choices are developed countries and countries with advanced technology. Stocks and bonds can be issued in the target country to supplement what foreign investment funds are available, and the fullest advantage can be derived from the advanced technology, highly educated labor force, and scientific management methods of developed countries and countries with state-of-the-art technology.

4. We must choose the proper partner and form of investment. This is an important element in avoiding or reducing investment risk. This choice should take into account the investment climate in the country under consideration, as well as the investor's purpose for investment. For investments in developed countries it is best to cooperate with private enterprise and form either a sole proprietorship or holding company. In developing or socialist countries, we should choose state-run or collective enterprises as partners. The form of investment might be joint ventures, cooperatives, or the three forms of investment and compensation trade.

5. We must train cadres with the sophistication and managerial ability to handle investment abroad. Competition in foreign investment is stiff and the risks high. Whether or not we can succeed in international competition depends on the quality of the investor. If China's foreign investment is to make great progress, it must have highly talented cadre who have a perfect mastery of political ideology, are imbued with entrepreneurial spirit, speak foreign languages fluently, and have competence in legal, financial, and technological fields. This is how we will ensure that our investments abroad prosper.

**Foreign-Invested Enterprises Increase**  
*OW1510054488 Beijing XINHUA in English*  
1202 GMT 14 Oct 88

[Text] Beijing, October 14 (XINHUA)—Some 3,085 ventures with complete or partial foreign funding were approved in the first eight months of this year, showing 206 percent increase over the same period of last year, the English-language CHINA DAILY said today.

This shows that China's investment environment has improved substantially, said Jia Lianbao, an official of the foreign investment administration under the Ministry of Foreign Economic Relations and Trade (MOFERT).

In addition to the approved ventures, investment set in contracts has also risen to 2.846 billion U.S. dollars, 74.6 percent more than that of last year, according to the paper.

Of the newly-approved ventures, 2,049 are Sino-foreign joint ventures whose contract-set investment is worth 1.67 billion dollars, accounting for 49.6 percent of the total.

The number of independent foreign ventures is 137, up 5.5 percent over the same period last year with an investment of 327 million dollars, the paper said.

By the end of June this year, Jia said, Hong Kong, the United States, and Japan will be the three big investors in China's mainland.

**Good Beginning in New Foreign Trade Structure Reported**

*SK1010032988 Changchun Jilin Provincial Service in Mandarin 1030 GMT 4 Oct 88*

[Excerpts] This year a new foreign trade structure has begun functioning in the province, resulting in a good situation during the beginning period and a breakthrough in foreign trade and export.

As of 20 September, the province fulfilled the annual export target by 95.3 percent, registering a 20.5-percent increase over the corresponding period last year. Meanwhile, imports of technology and equipment have become increasingly reasonable. By the end of August, transactions on 38 projects of technology and equipment imports involving \$28.5 million contracted value and on 14 foreign capital utilization items involving \$1.82 million contracted value were concluded; and agreements on running 10 foreign-funded production enterprises were signed, a 25-percent increase over the corresponding period last year. From January to August, the province signed agreements on 32 export items that will earn foreign exchange, seven items more than the annual target. [passage omitted]

A breakthrough was made in signing agreements on economic and technological cooperation items with the Soviet Union and East European countries. In 1988, the province plans to sign agreements on eight to ten such items, and by the end of August, seven items were reached. In addition, new progress has been made in conducting labor service cooperation, undertaking contracted projects abroad, conducting multilateral and bilateral cooperation worldwide, undertaking export commodity transportation, and building packaging bases. [passage omitted]

**Changes in Foreign Trade Administrative System Advocated**

40060015 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 7, 12 Jul 88 pp 56-59

[Article by Zhong Pengrong 6983 2590 2837, graduate student at South Central College of Finance and Economics: "Four Changes Must Be Carried Out in the Foreign Trade Administrative System"]

[Text]

**I. The Transformation From the Procurement System to a System of Joint Operations in Foreign Trade Administration**

One of the defects of China's current foreign trade administrative system is that the procurement system it employs divorces production from marketing, which fact has had a very deleterious effect on the development of China's foreign trade. For under the procurement system, productive enterprises sell their goods to foreign trade enterprises, thereby realizing the value of their output; product marketability then becomes the problem of foreign trade enterprises, not of producers. This insulates producers from the pressures of international competition and prevents them from keeping abreast of developments in productive technology abroad and from making timely readjustments in their product lines to meet changes in international demand. Consequently, the gap between China's productive technology and product quality and the respective levels of advanced countries is growing, and the divorce of our production and export marketing is becoming ever more serious.

The way to eliminate this divorce of production and marketing is to transform China's foreign trade system from a monolithic procurement system into a system in which the agent system and joint operations predominate and in which a variety of operational forms coexist. The agent system will directly orient productive enterprises to international markets and force these firms to pay close attention to changes in international supply and demand and to strive to establish market share for their products in international markets. However, at least two conditions must be fulfilled if we are to establish an agency system for export marketing. First, producers must be familiar with foreign trade operations and conditions on international markets so that they can judge whether or not their agents are marketing their products as rapidly as possible, at the best possible prices, and with the lowest possible commissions. Second, there must be a multiplicity of export agents for the same products so that the agents are competitive. So far, these two conditions have not been met. Productive enterprises and supply companies' ignorance of foreign trade operations and of international market conditions makes it impossible for the firms to determine whether or not their agents are fulfilling their obligations. And the facts that provinces have only a handful of foreign trade

corporations and that the corporations practice monopolistic division of labor render the agent system uncompetitive and make it impossible for producers to change agents even when they do know that the latter are not fulfilling their obligations. When agent systems are implemented under such conditions, the authority of, responsibility of, and rewards garnered by export corporations cannot be integrated: The corporations possess the authority to market goods on behalf of producers and enjoy stable sources of income from commissions, but there are no mechanisms by which to control the corporations and to induce them to honor their obligations to the principals they serve.

What we can do now to alleviate the above problems, I believe, is to effect a transition from the current procurement system to a system of joint export operations, which would work as follows. Foreign trade enterprises would offer their international marketing skills and facilities and their foreign customers to productive enterprises, with whom they would work together to export producers' goods. Producers would assign personnel to work with foreign trade enterprises at each link in exporting—conducting surveys of international market conditions, engaging in business talks, marketing products, and the like. The earnings obtained through export sales would be shared according to a certain ratio, and both sides would assume the risk involved. This approach would help eliminate the isolation of productive enterprises from world markets, which is caused by the procurement system, and prevent foreign trade enterprises from evading their obligations, which problem plagues the current agency system. And through joint export operations, producers can gradually familiarize themselves with the operations and customers involved in foreign trade and prepare the groundwork for their own entry into international markets.

The conditions necessary for implementation of the agent system will steadily emerge as authority to manage foreign trade is decentralized, as the number of firms engaged in foreign trade increases, as such firms begin to compete to win agent business, as the firms improve the quality of the service they render to productive enterprises, and as producers themselves obtain authority to engage in foreign trade and familiarize themselves with foreign sales operations and with international market conditions.

**II. The Transformation of the Foreign Exchange Distribution System From Allocation to Auctioning**

China currently distributes foreign exchange through government (principally, the central government) allocation. Under this system, the government, using exchange rates it sets itself (which are lower than equilibrium prices and average exchange rates for costs as computed in foreign currency), buys up the lion's share of foreign



currency earned by export companies and either distributes the currency to a wide variety of units needing it or uses it directly to import producer goods and materials for distribution to units.

This system has produced a number of negative effects. First, it prevents user units from appreciating the real cost of foreign exchange, thus hindering our effort to promote import substitution and economization of foreign exchange use. Second, the system frequently distributes foreign exchange to units that do not show good returns on foreign exchange use but who are able to influence distributor agencies, and does not give priority to users who show good results, which practices lead to waste in foreign exchange use. Third, the system encourages endless demand for foreign exchange, and the government, subjected to such pressure, has no choice but to increase command-plan quotas for foreign exchange earnings, and the increase in foreign exchange produced through such quotas accelerates the rise in foreign exchange costs and in the amount of government subsidies required to cover those increased costs. Fourth, centralized procurement that is underpriced in terms of foreign exchange reduces the autonomy of foreign-exchange earning units in their sales and use of foreign currency and prevents these units from using changes in the exchange rates for foreign currency to offset rises in their marginal foreign exchange costs, so that the government has to grant additional subsidies to cover the gap between these costs and official exchange rates, which subsidies, in turn, weaken budgetary restraints on foreign trade enterprises.

The foreign exchange allocation system is related to the investment system. Under the current investment system, 80 percent or more of all enterprise profits have to be remitted to central and local governments, and major investment projects, especially those involving new construction, are undertaken by central or local governments, with the required foreign exchange provided, without compensation, by the governments involved. Since all investment yields poor returns under this system, the economic results of foreign exchange use naturally are going to be low, too.

Our objective in reforming the investment system is to delegate authority to invest in profitable projects from the government over to enterprises, which should turn over only a small part of their profits to governments, using the rest themselves directly to invest in various projects.

As the investment system is reformed, demand for foreign exchange will come primarily from enterprises, instead of the government. Under these conditions, the foreign currency earned by exporting enterprises no longer has to be sold entirely to governments, and the foreign currency required by importing enterprises need not be distributed by governments; markets should replace governments as the intermediaries linking supply of and demand for foreign exchange. Exchange earned by

enterprises may either be used directly to import needed goods or be sold on foreign exchange markets. Units needing exchange, no matter who they might be, can go to the market and buy what they need. And the price of foreign exchange will be determined by the relationship between market supply and demand. Under conditions in which supply is fixed, foreign exchange will go to the highest bidder. This is what we mean by the "auction system" for distributing foreign exchange.

On foreign exchange markets, the price of foreign currency is based primarily on average social foreign exchange costs and rises and falls as supply of and demand for foreign currency fluctuate. When exchange rates are low, export sales will not be as profitable as domestic sales, so the number of enterprises engaging in foreign trade will decline. High rates, on the other hand, will enable products that have higher export foreign exchange costs and that had been more profitable to market internally than externally to join the ranks of exports. In this situation, foreign exchange earnings levels will be ensured by "the invisible hand," rather than through government command planning.

The implementation of the "auction system" and the establishment of foreign exchange markets presuppose strong budgetary constraints on entities needing foreign exchange. For if budgetary controls are weak, entities can afford to buy foreign exchange, so long as it is available, no matter how expensive it is, because the government will reimburse them, anyway. In such cases, the auction system will not work, only allocation will. Once the investment system is reformed, demand for foreign exchange will come primarily from enterprises, secondarily from governments. The moneys enterprises can use to purchase foreign exchange are limited to the following: depreciation funds, working capital, retained profits, bank loans, and capital raised publicly. The key to strengthening budgetary constraints on enterprises lies in making enterprises reimburse the principal of and pay the interest on loans and publicly raised capital (in the form of bonds) out of their after-tax, rather than their pre-tax, earnings. For this will make enterprises' foreign exchange purchasing power conditioned by the level of their retained profits. The key to strengthening budgetary controls on governments lies in setting limits on government revenues and expenditures. The budgets of all governments must truly be approved by respective people's congresses, and governments must not be allowed to increase their revenues on the sly through miscellaneous, arbitrary exactions. Once caps on total revenues are set, outlays for investment and for purchase of foreign exchange will also be limited. Only when budgetary controls over both enterprises and governments are strong can exchange rates truly work to regulate demand for foreign currency, and only then can an "auction system" for foreign exchange effectively be established.

### III. The Transformation From Negative to Positive Subsidization of Foreign Trade Losses

I have already discussed two of the factors inhibiting implementation of a foreign trade agent system. A third factor is that foreign trade is unprofitable and that export sales are not as rewarding as domestic ones. Failure to resolve this problem will not only impede implementation of an export agent system but will also make joint operations and even the procurement system in foreign trade difficult to sustain. Analytically speaking, there are four major reasons why China loses money in her export trade. First, its foreign exchange rates are too low, and the export losses this factor engenders are reflected either as import profits or as reductions in import losses. Second, exports are taxed too much. The multiple taxation inherent in the product-tax system subjects goods that are processed two or more times to heavy taxation and increases their procurement costs. These losses, therefore, actually are the result of high government revenues. In short, these two types of export losses are not real losses in an absolute sense but rather entail a redistribution of profitability from exporting to other spheres. A third factor is poor management of productive enterprises, inferior product quality and high costs. And the fourth is poor management of foreign trade enterprises.

Under the current procurement system, all of these losses show up on the books of foreign trade enterprises and are manifested as high export foreign exchange costs. Because export firms deal in different products, these factors affect the firms differently, so the firms' foreign exchange costs vary. To ensure that the firms earn foreign exchange, the state reimburses them for all their foreign exchange costs, thus undertaking to subsidize all the losses engendered by the above four factors. This practice produces the following results. It confuses real losses with false ones, making it impossible accurately to evaluate and improve the macroeconomic results of foreign trade operations. It confuses policy-induced losses with losses stemming from poor management and inhibits efforts to strengthen budgetary constraints on foreign trade enterprises. Because productive enterprises use foreign trade as a pretext to get the central government (from 1988 on, provincial governments) to reimburse losses that are actually the result of poor management, provincial governments occasionally use the same ploy to wrest subsidies from the central government (now it is prefectures and counties who are squeezing provinces). Moreover, in competing for business, export firms everywhere vie to snap up export supplies at high prices, which they then sell at low prices, thereby draining away China's wealth. The main reason why these firms do this is because they are using the state's money, not their own. All of these defects result not from the use of subsidies itself but from the system of negative subsidization that is currently employed. To enable foreign trade enterprises to take responsibility for their own profits and losses and to give the broad masses of

enterprises, especially producers, incentive for exporting, we should transform negative subsidization into positive subsidization as quickly as possible.

Positive subsidization involves establishing different forms of subsidization for losses of different types or resulting from different reasons. In principle, export losses stemming from low foreign exchange rates should be handled by changing the rates. This will shift the source of subsidy from the state's coffers primarily to the funds held by enterprises using foreign exchange. The advantages of this approach are that it makes foreign exchange users directly appreciate the real value of the foreign exchange they spend, it standardizes subsidies, and it resolves the contradiction between growing demand for foreign exchange and the state's limited financial resources. Losses stemming from multiple taxation, on the other hand, should be subsidized through tax rebates. Compared to the practice of setting subsidies in accordance with export foreign exchange costs, this approach enables foreign trade firms to compare the real costs of various exports and thus promotes rationalization of export product lines. The basic operational principle for foreign trade enterprises is deciding whether or not to export or how much to export of a certain product on the basis of the product's export foreign exchange costs. However, the irrationality of our current tax and price systems makes the foreign exchange costs of certain products in which we possess advantages and that we should be encouraging enterprises to export appear high and the costs of other products in which we are not so advantaged and of which we should limit export seem low. In such cases, in other words, microscopic economic results often correspond to macro-regulatory ones. By subsidizing the right products with tax rebates, we can make all of our products confront international markets at their real cost levels; on the microscopic level, induce enterprises to select exports according to profitability; and, on the macro-regulatory scene, ensure that what we export is precisely the goods in which we enjoy lower production costs. Moreover, tax rebates also serve to regularize subsidization.

Of the four types of export losses enumerated above, the first two are "policy induced," the second two "operational." Elimination of policy-induced losses is a prerequisite for the policy of getting foreign trade enterprises to take responsibility for their own profits and losses, and elimination of operational losses is a result of the policy. The basic principle of positive subsidization is to subsidize only policy-induced losses, not operational ones. By establishing standard subsidy rates for policy-induced losses, we can create the conditions to enable foreign trade enterprises to take responsibility for profits and losses, and ensure that export earnings do not fall below returns from domestic sales. When these desiderata are accomplished, we can move to eliminate operational losses by letting foreign trade enterprises liberalize their operations and take responsibility for their profits and losses and by having both foreign trade and productive firms strive to improve their management.

#### IV. The Transition From Direct to Indirect Controls in the Foreign Trade Macro-Regulatory System

The key to establishing a foreign trade system that ensures both microscopic vitality and effective macro-regulatory control lies in transferring the authority to manage microscopic activity from the government to enterprises. In exporting, the government should limit itself to such macro-regulatory concerns as setting prohibitions or restrictions on certain products or to encouraging the export of certain other goods. As to whether or not specific enterprises will engage in exporting, what they will export, how much foreign exchange they earn, how high their foreign exchange costs are, and the like are the affairs of enterprises themselves; government agencies need not interfere in each and every one of these matters with one edict after another. In importing, the government should limit itself to setting prohibitions or restrictions on certain products and let enterprises freely import everything else, purchasing the foreign exchange they need directly from markets, without having to get the approval of one government level after another.

Once foreign trade enterprises liberalize their management and assume responsibility for their profits and losses, the principal tool the government should use in regulating import and export mixes is tax rates. For example, the government should rebate all indirect taxes on exports so as to enable our exports to confront international markets at their real costs, and rebates on a few exports that require special support can be higher than the actual amount of taxes paid on these goods, so as to encourage the goods to participate in international competition.

Customs duties are an important economic lever with which to regulate imports. We can use indirect taxes on imports to bring their prices into line with with domestic ones, and then, in accordance with state industrial policy, apply differentiated duties to different imports.

Foreign exchange rates are an important economic lever with which to regulate the total volumes of imports and exports. Rather than directly setting or readjusting foreign exchange rates, the government must have the central bank regulate supply of, demand for and the prices of foreign currency through market transactions, which operations will then serve to regulate the total volumes of imports and exports.

In addition to these two indirect control measures, appropriate direct controls are also indispensable for the macro-regulatory control of foreign trade. The primary direct control tool is quotas on imports and exports, of which there are two types, absolute quotas and duty quotas. I shall address only the first type. Two problems may arise when we distribute quotas. First, enterprises receiving and not receiving quotas are placed on a footing of unequal competition. In the case of exports, for example, the commodities that are subject to quotas

usually are hot sellers on international markets, so companies receiving quotas for these goods objectively obtain a competitive advantage. Second, enterprises showing poor economic results in importing and exporting may have priority for some quotas, whereas firms showing good results may fail to obtain quotas. The best way of resolving this problem is to auction quotas off fairly and openly and to permit them to be traded. For if this approach is used, enterprises boasting quality products and good sales prices on international markets will be able to tender high bids, buy up the quotas and thus win preference in exporting, thereby helping us to eliminate the poor economic results of our exports resulting from irrational distribution of export quotas. Imports and exports that are subject to quotas usually are profitable for the traders who deal in them, for the goods yield superprofits. Quota auctioning, then, actually serves to transfer these superprofits from traders to the government and therefore helps equalize the competition between enterprises that have and those and do not have quotas.

By using auctioning, rather than administrative methods, to distribute quotas, we transform quotas, a tool for direct control, into an indirect means of control. Although the absolute volume of a particular import or export is set administratively when quotas are employed, the auctioning system leaves the issues of which enterprises are to obtain quotas and how much they are to receive open for settlement through competitive bidding, which enables enterprises showing good economic results in importing and exporting to continue these operations. What is actually limited through this system, then, is the participation of enterprises showing poor economic results.

Imports can be divided into three categories: those that are prohibited, those that are restricted, and those on which all controls have been lifted. Relevant departments should prepare detailed lists enumerating these three types of imports and give copies thereof to customs officials for enforcement. The second type should be controlled primarily through licensing, the third through taxation. Enterprises can freely import the third type so long as they have the needed foreign exchange and the second type so long as they have the needed exchange and the required licenses. And both licenses and foreign exchange should be freely purchasable with renminbi. In this way, enterprise imports and obtaining of foreign exchange will not require the approval of government agencies, as now.

Redundancy has been a salient problem in China's import work over the past several years. While this problem certainly is related to the weakness of our macro-regulatory control system, its principal cause is the weakening of budgetary constraints on importers. For China's primary importers are not entrepreneurs but regional and departmental administrators, who obtain the funds they need, whether in renminbi or in foreign

exchange, not through their own earnings or accumulation but by appealing for grants from superiors or by levying miscellaneous, arbitrary exactions on subordinates. Once these funds are in hand, administrators bear no legal or economic responsibility, even if they should waste all of the funds. So when bureaucrats discover that somebody else is importing something, they want to get into the act, too. This is a major cause of the redundancy in China's import work. Things will change once enterprises replace the government as the leading actors in investment. For enterprises will have to raise their own investment funds through accumulation or through public sale of stocks and bonds, and they will have to purchase the foreign exchange they need with their own funds. So fund and foreign exchange expenditure will affect the success of the firm and the fate of its employees. Thus, when enterprises take over as China's leading investors, redundancy in importing will decline so long as relevant departments provide enterprises with timely information and so long as imports are regulated through duty rates and restricted with quotas.

**Record for Export Volume Set by Beijing**  
*OW1410062288 Beijing XINHUA in English*  
1142 GMT 13 Oct 88

[Text] Beijing, October 13 (XINHUA)—The export volume of Beijing municipality totalled 808 million U.S. dollars between January and September, setting a new record, 18.7 percent above the same period of last year.

In an interview with XINHUA today, an official of the Beijing Municipal Economic and Trade Committee said that major exports include garments, knitwear, handicrafts, medicine, electronic products, machinery, ornaments, nonferrous metals and automobiles.

He said that the city exported 128 million U.S. dollars worth of machinery and electrical products in the first nine months of this year, 27.7 percent more than a year ago.

The official attributed the export increase to "close co-operation" among the departments of industry, agriculture and foreign trade. As a result, he said, the supply of commodities purchased for export by these departments increased by 17.7 percent this year, compared with the same period of last year.

Beijing has exported some 1,000 types of commodities to more than 130 countries and regions in the world, the official said.

**Beijing Takes Lead in Attracting Foreign Investment**

*40060079a Beijing GUOJI SHANGBAO in Chinese*  
18 Oct 88 p 1

[Article by staff reporters Liu Lei 0491 7191 and Jiang Guohua 5592 0948 5478]

[Text] The investment climate has obviously improved in Beijing. A most convincing proof is that the number of foreign-funded enterprises approved this year has

increased by more than 60 percent over the same period last year. So far this year, approval has been given to more than 100 new foreign investment projects. The suburbs are attracting as much foreign investment as the urban districts.

According to statistics, by the end of the last September, Beijing had approved a total of 348 foreign-funded enterprises, with an agreed-upon total investment of \$3.796 billion, of which \$1.762 billion is from foreign investors. The investment pattern is quite reasonable—with 183 productive projects, 92 tourism projects, and 73 social services projects, accounting for 52 percent, 26.44 percent, and 20.98 percent respectively of the total. In both the number of projects and the amount of money invested, Beijing ranks first among China's major cities.

Relying on and carrying out the central government's policies, the municipal party committee and municipal government have made great progress this year in attracting foreign investment. Foreign firms are eager to invest in a wide range of projects, especially productive projects of the "short, level, and speedy" type. According to initial statistics, from January through September this year, approval was given to 83 foreign-funded enterprises, a 65.5-percent increase over the same period last year. These enterprises involve a total investment of \$343 million, of which \$112 million will be provided by foreign investors. Joint ventures (including enterprises with funds invested by Taiwan compatriots) and solely owned enterprises are the fastest-growing. Approved were 80 joint ventures with an agreed-upon total investment of \$323 million, up 65 percent from the same period last year, and four solely owned enterprises with an agreed-upon total investment of \$1,783,000. The investment structure has changed significantly. Of the newly approved 87 partially and wholly foreign-owned enterprises, 72, or 82.7 percent, are productive enterprises with an agreed-upon total investment of \$303 million, clearly the single largest group. Enterprises using funds from Taiwan are growing rapidly. Approval has been given to 15 such enterprises with a total investment of more than \$140 million, of which more than \$110 million are raised by Taiwan compatriots. Of the 15 projects, eight with a total investment of nearly \$50 million have been completed and put into production. Indications are that investment by Taiwan compatriots will continue to grow. A new development in the use of foreign funds is the increasing use of foreign funds for agricultural projects in the inner and outer suburbs of Beijing. There are 54 such projects now in progress, including the breeding of chimpanzees and goldfish, manufacture of micro-electrical machines, and production of sports goods such as billiard balls, tourist shoes, golf club heads, etc.

Most of the established joint ventures are doing well with a favorable foreign exchange balance and fairly good economic returns. Some of the partially and wholly foreign-owned enterprises have far exceeded the level of

economic performance anticipated in their feasibility reports. The U.S. Kentucky Fried Chicken restaurant in Beijing has set a daily income record which is more than eight times the amount predicted, making it the most successful among the more than 7,000 Kentucky Fried Chicken restaurants in the world. Other enterprises such as the Stone Co, the Yin Yan Flash Lamp Co, the Beijing Jeep Co, and the Jianguo Hotel have all exceeded the performance targets set in their feasibility reports.

In promoting the use of foreign funds, Beijing's leading comrades take a personal interest in some major projects. They set up offices in the enterprises to make decisions and solve problems on the spot and to deal directly with the foreign businessmen. This year, the municipal government has delegated to the various districts, counties, and bureaus the authority to examine and approve applications and feasibility study reports of projects involving an investment of up to \$3 million and \$5 million. Projects involving more than \$5 million are examined and approved by the municipal government, generally within 10 days. Industrial and commercial permits are issued in an average of less than three days. The simplification of examining and approval procedures has greatly increased efficiency and aroused the enthusiasm of the various municipal commissions and offices concerned and the districts, counties, and bureaus. The municipal government has also decided recently to delegate to qualified district and county people's governments the authority to examine and approve contracts and articles of association for foreign-funded enterprises step by step and in a planned way.

#### **Henan Vice Governor Calls For Better Running of Joint Ventures**

40060080 Beijing GUOJI SHANGBAO  
in Chinese 18 Oct 88 p 1

Article by reporter Feng Zhuowu 7458 0587 0063

[Text]Qin Kcai, member of the Henan Party Committee and vice governor of the province recently attended a Henan Provincial Economic and Trade Working Conference where he said members on the Chinese side of foreign-funded enterprises in dealing with foreign businessmen should conduct themselves like entrepreneurs and not like diplomats socializing with them. The vice governor believes that only by handling joint venture enterprises satisfactorily will Henan be able to show that its investment climate is good and attract even more foreign investors.

Qin Kcai said that three indispensable conditions are needed for satisfactorily handling Henan's foreign-funded enterprises. The State must extend preferential policies to these enterprises that will affect the overall business climate, local areas must extend preferential policies that will apply to the regional business climate, and individual enterprises will create their own "climates." Qin Kcai, while on an inspection tour of Luoyang, Nanyang, and Zhumadian, ascertained that

some joint ventures are well managed and some are not. Looking into the causes, he found that firstly, preparations during the early stages of the joint venture had been inadequate, or demonstrably unscientific, and that sanctioning procedures had not been strict enough. Secondly, there had been too much interference. Joint ventures essentially have independent legal status, but too frequently, the Chinese side looks upon them as their own subordinate enterprises and randomly interferes with the rights of these enterprises to handle their own affairs. For example, some places will replace the chairman of the board and the general manager without discussing the matter with the board of directors, to the point of becoming the joint venture's arbitrary "appointer" of personnel. To resolve these problems, joint ventures should be run in accordance with international practices.

The vice governor said that Henan has already decided on over 100 joint venture projects and welcomes foreign businessmen to invest in the province. He said that Luoyang and Zhengzhou could become areas for concentration of foreign-funded enterprises. He noted that as foreign-funded enterprises increase, the foreign exchange base will likewise expand.

#### **Inner Mongolia Jan-Aug Exports Reported**

SK2510050088 Hohhot NEIMENGGU RIBAO  
in Chinese 5 Oct 88 p 1

[Excerpt] In the first eight months of this year, our region earned \$177.02 million in foreign exchange through foreign export trade, overfulfilling the state-assigned plan by 7.79 percent. Of this, the export of grain, oil, and foodstuff was 138.43 percent of the plan, and a 72.79-percent increase over the corresponding period of last year; and that of native and animal products was 144.69 percent of the plan, and a 17.10-percent increase over the corresponding period of last year. The export volume of border trade showed a growth of more than 100 percent over the corresponding period of last year, reaching \$26.23 million. [passage omitted]

#### **Liaoning Processing Zone Under Construction in Shenyang Area**

OW0710181288 Beijing XINHUA in English  
1253 GMT 7 Oct 88

[Text] Shenyang, October 7 (XINHUA)—Construction is in full swing in a five sq km processing zone gearing to exports on the outskirts of Shenyang, capital of Liaoning Province.

Work started last June, and projects already completed in the zone include a network of sewage system, roads totalling 5,200 meters, 20 communications cables, two heating centers and the foundation for a six-story, 10,000 sq m workshop building.

The construction is a major part of a renovation project on the city's Tiexi industrial estate—which is said to be China's "Ruhr," according to an official from the zone's management commission.

The zone practises preferential policies to attract foreign investment. Up to now 17 enterprises and firms have registered here and the zone has also clinched more than 20 letters of intent with domestic and foreign enterprises, said the official.

Moreover, the zone will pilot a series of reforms on restructuring the economic systems, he said.

**Foreign Investment in Liaoning City Doubles**  
*OW1410030188 Beijing XINHUA in English*  
1437 GMT 13 Oct 88

[Text] Shenyang, October 13 (XINHUA)—Shenyang, China's leading heavy industrial center, clinched 106 contracts involving 207 million U.S. dollars in foreign investment in the first eight months of this year.

According to a city government official, the sum is double the figure for 1987.

Most of the money was invested in manufacturing joint ventures or cooperatives, the official said.

**Shandong's Yantai To Engage in Foreign Trade**  
*OW1310021188 Beijing XINHUA in English*  
1447 GMT 12 Oct 88

[Text] Guangzhou, October 12 (XINHUA)—Yantai in Shandong Province, one of China's open coastal cities, will be able to directly engage in foreign trade beginning January 1, 1989.

That means that the city's 10-odd specialized firms can negotiate their own import and export deals.

Until now, import and export negotiations have had to be conducted by government-run foreign trade companies on behalf of the producing firms, with permission from higher authorities, said Vice Mayor Liu Goudong today.

Liu is currently in Guangzhou for the 64th China Import and Export Commodities Fair to open this month.

Yantai now sells 400 of its products to 100 countries.

**Xinjiang To Strengthen Ties With Arab Countries**  
*HK1410120788 Beijing CEI Database in English*  
14 Oct 88

[Text] Urumqi (CEI)—Chairman Tomur Dawamat of the Xinjiang Uygur Autonomous Regional Government reaffirmed on October 13 the region's willingness to expand economic and trade relations with Arab countries.

Xinjiang is inhabited by over eight million Muslims, thus sharing with Arab countries the same religion and similar habits and customs.

Because of this, he said, Xinjiang has decided to focus its attention to cooperation with Arab countries while the rest of the country, especially provinces along the east coast, now open mainly to Japan, the United States and other western countries.

Xinjiang has a large choice of goods to offer to Arab countries, such as fruit, melons, mutton, live sheep to be slaughtered for meat and textiles, he said.

In addition, he said, the region hopes to sell labor services to Arab countries.

**Zhejiang Fulfills Year's Export Quota Ahead of Schedule**  
*OW0710204988 Beijing XINHUA in English*  
0731 GMT 7 Oct 88

[Text] Hangzhou, October 7 (XINHUA)—By the end of September, Zhejiang Province, in East China, had exported 1.1 billion yuan-worth of goods, fulfilling the annual export quota set by the state a quarter ahead of schedule.

A local trade official attributed this to the reform of the foreign trade management system and more decision-making powers descending to the province.

The proportion of electric products and machinery, and intensively-processed goods went up by a big margin. The quality and packaging of farm produce were greatly improved.

Meanwhile, the province signed contracts involving 37 million U.S. dollars for the processing of garments, gloves, zippers and tin solder bars.

The province's export value in 1987 totalled 1.3 billion U.S. dollars, ranking eighth in the country.

**Northwest Suggests Reopening 'Silk Road'**  
*HK0310093988 Beijing CEI Database in English*  
3 Oct 88

[Text] Urumqi (CEI)—Experts and scholars attending a symposium recently held by China's five Northwestern Provinces and regions suggested reopening the "silk road" to promote material circulation.

Northwest China is rich in energy, agricultural goods, animal by-products, light industrial products and textiles.

For communication, an asphalt road linking Xinjiang and Pakistan will open to traffic at the beginning of October. A railway line from Urumqi to the Soviet Union will be completed by 1990.

The Northwest region is preparing to enter the world market.

## ECONOMIC ZONES

### Development of Guangdong Shenzhen Port Hastened

HK1710030188 Hong Kong HONGKONG STANDARD  
in English 17 Oct 88 p 1

[By Fan Cheuk-wan]

[Text] Development of the Yantian deep-water port has been hastened to cope with Shenzhen's rapidly-expanding exports, a project manager has told THE STANDARD.

The move will also have the effect of reducing South China's dependence on Hong Kong's Kwai Chung Container Terminal.

Congestion at the Kwai Chung Terminal also motivated the Shenzhen government to step up development of its own port.

In August Shenzhen mayor Mr Li Hao called for revised work schedules on the project from the Shenzhen Dongpong Industry Co Ltd.

In an interview with THE STANDARD in Shenzhen, Dongpong's development department manager, Mr Zheng Yuheng, said Mr Li told his company to advance the start of the first phase from early next year to this winter.

"The Shenzhen Special Economic Zone (SEZ) keenly needs terminals and warehouses. Capacity of the existing warehouses in Shenzhen cannot meet the huge demand of the increasing export," Mr Zheng said.

Statistics showed Shenzhen's total exports in the first six months of this year reached US\$1.353 billion (about HK [Hong Kong] \$10.5 billion), almost double total exports last year.

About 90 percent of Shenzhen's exports are shipped via Hong Kong Kwai Chung Container Terminal.

The terminal's operators recorded a 40.67 percent increase in trans-shipment cargo last year, mainly brought about by substantial increases of transshipment cargo from China.

"If the Kwai Chung Terminal is saturated in future, our cargoes must seek other ways to go," Mr Zheng said.

Hong Kong's container throughput for the first eight months this year rose 15.52 percent, with Kwai Chung handling almost 75 percent of the total tonnage.

Enjoying an annual growth rate of about 15 to 19 percent, two new terminals are not expected to meet demand for container traffic moving through Kwai Chung.

"Our terminals at Shekou and Chiwan in Shenzhen have been suffering from serious congestion because of the great export demand of the SEZ," Mr Zheng said.

"Many cargo vessels were blocked at the terminals for days waiting for unloading of the goods. The tension of the port facilities at the two sites is worsening because of the steady export expansion of the SEZ.

"The deep-water port at Yantian will largely help ease the problem."

When completed, it will have an annual handling capacity of 56.5 million tonnes.

The first phase, to be completed in 1992, includes building four berths, each for handling vessels of 10,000, 20,000, 35,000 and 50,000 tonnes, Mr Zheng said.

He said progress of the "starting project" of the first phase development—building of four small berths which started last December—was speeded up under Mr Li's order.

Seventy percent of the "starting project" has been finished, he said.

"Two berths, for 1,000-tonne cargo vessels will be completed later this month. Another 1,000-tonne vessel berth and a 3,000-tonne vessel berth will also be completed by December," Mr Zheng said.

"To prepare for an early completion of the first phase development, the four small berths will start serving for the transportation of construction materials," Mr Zheng said.

"The berth for vessels of 10,000 tonnes will be completed next June, which will be six months earlier than scheduled."

## POPULATION

### International Seminar on Population Statistics Opens

OW1210020488 Beijing XINHUA in English  
1205 GMT 11 Oct 88

[Text] Beijing, October 11 (XINHUA)—An international seminar on population statistics training opened here today.

Over 30 specialists from nine countries, including Australia, the Soviet Union and the United States, are taking part in the seminar, which is jointly sponsored by the



China State Statistics Bureau, the UN Fund for Population Activities and the UN Department of Technical Cooperation for Development.

During the five-day seminar they will share experiences and information on how to carry out population statistics studies in universities and colleges, how to further increase the academic level of population statisticians and other relevant issues.

"As the seminar is being held in Beijing, it is a very good opportunity for Chinese statisticians to learn from others and it will be a great help for the ongoing preparatory work in China for the fourth national population census to be conducted in 1990," said Zhang Sai, director of the State Statistics Bureau.

Among those present at today's opening ceremony were William Seltzer, director of the UN Statistics Office, and Ali Sahib, chief of the statistics division of the Economic and Social Community for Asia and the Pacific.

#### **Article Views Population, Manpower**

HK1311050088 Beijing JINGJIXUE ZHOUBAO  
in Chinese 30 Oct 88 p 2

[Article by Feng Lanrui 7458 5695 3843: "China's Population Structure and Question of Manpower in the 21st Century"]

[Text] The structure of population covers much ground. This article will focus on the question of age structure of population which is closely related to the reality of China's population.

#### **I. The Basic Characteristics of China's Population Development Since the Founding of the PRC**

1. The excessive increase in population. In the 30 years after the founding of the PRC, the development of China's population underwent two birth peaks in the 1950's and the 1960's. The birth rate reached as high as 40 per 1,000 in some years. Natural growth increased at an average of 20 percent in 30 years. Now we are facing the third birth peak. The blind increase in population over the decades has produced an adverse influence on economic and social development.

2. The population is basically composed of young people. Of China's current population which exceeds one billion, more than 600 million were born after the founding of the PRC. These people are now around 30. According to statistics, the population of those under the age of 34 totaled 680 million in 1984. This shows that China's population is mainly composed of young people.

Health: The height, weight, and chest measurements of the Chinese are lower than those of the Europeans, Americans, and Japanese. The deformed, the dementia, and those who are mentally retarded account for around

1 percent of the population. Of the babies born every year, 2 to 4 percent are deformed. Some 10 percent of the country's population suffer from all kinds of chronic diseases.

Education: According to the 1982 census, of the population of one billion in China, 0.6 percent had a university education, 6.6 percent had senior middle school education, 17.8 percent had junior middle school education, and 35.8 had primary education. One-fourth of the country's population were illiterate or semi-illiterate. The proportion of professionals and technicians among China's staff members was lower than that of many countries.

#### **II. The Changes in the Characteristics of Population in the 21st Century**

1. The natural growth in the last 20 years of this century dropped and the population growth slowed down.

The birth rate dropped. The policy of family planning was practiced in the 1960's to keep the population growth under control. The second birth peak took place during the cultural revolution when the practice of family planning was hindered. Following the cultural revolution, each couple was encouraged to give birth to only one child, while the couples in rural areas with special conditions were allowed to give birth to two children. Beginning from the mid-1970's, the annual birth rate dropped to under 20 per 1,000. The children born every year dropped from 25 million to 10 million. If family planning is properly practiced, the birth rate will continue to drop.

The natural growth rate dropped. The annual natural growth rate dropped from 20 per 1,000 over the past 30 years to 11.23 per 1,000 in 1985. However, the rate rose to 14.08 per 1,000 in 1986. This trend merits attention.

2. The population changed to an old-age type. This is the inevitable result of the drop in both birth and mortality rate.

The drop in mortality rate: Prior to the founding of the PRC, China's mortality rate reached as high as 28 to 33 per 1,000. Following the founding of the PRC, the rate dropped gradually which reached around 6.5 per 1,000 starting from the mid 1970's. The average life span also increased from 35 before the founding of the PRC to 67.88. In the year 2000, those born in the 1980's will be youngsters under 20 while those who are 20 to 44 in the 1980's will reach 40 to 64. These two groups will account for 63.3 percent of the total population (around 790 million). Those who are 45 to 60 total 200 million in the 1980's. Apart from the 30 million of the elderly who will die in 2000, the remaining 170 million who are over 65 will account for 13.6 percent of the population totaling 1.248 billion. Thus the age structure of China's population will become one of an old-age type in the year 2000.



After 2000 the process of China's population becoming one of an old-age type will be accelerated. Those born in the 1950's, 1960's, and 1970's will become advanced in age and join the ranks of the elderly in the period from 2040 to 2050. This will be the largest absolute figure of the elderly in the development of China's population. In the forecasts of the scholars at home and abroad, the majority believe that China's elderly will total 300 million in the mid 21st century, accounting for a little more than 20 percent of the population totaling 1.471 billion. According to the calculation of the 1987 "Chinese Statistical Almanac," the population of those over the age of 65 will be 257 million in 2040, accounting for 17.4 percent of the total population.

### 3. The quality of population.

The improvement in physical qualities. The rate of deformed babies will drop to less than 1 percent, the number of mentally retarded people will decrease, the mortality rate of babies will go down, and the average life span will increase.

The improvement in educational qualities. Kindergarten education will be expanded, primary and secondary education will be popularized, illiteracy will be wiped out, and the proportion of people with university education will remarkably increase. Scientific knowledge will be popularized.

While vigorously increasing educational and scientific knowledge, the educational level of the responsible persons of state organs and institutions, responsible persons at all levels in the localities, and professionals will be upgraded.

It is estimated that the quality of China's population will reach a high level by the 21st century.

### III. Problems Encountered in the Population's Aging

1. Viewed from the above analysis, the aging of China's population is a practical rather than a remote matter. We should vigorously conduct studies on relevant problems and work out measures to deal with it.

2. Adhere to family planning so that the speed and extent of population aging will be relatively balanced and reasonable and that the population will be stabilized (0 percent growth) by the year 2040.

3. Set up and perfect the social insurance system and solve the problem of providing for the elderly. In China the tradition of children providing for their parents should continue to be encouraged. As a result of population control in this century, however, around half of the population will have to be supported by society as they will have no children by the 21st century. China's social insurance system has not yet been extensively established. To solve the question of providing for the elderly and their medical care by the 21st century, it is

necessary to immediately establish a social insurance system for the elderly, reform the existing retirement system, and establish an old-age pension system so as to provide for all elderly in society.

### IV. The Impact of Population Aging on Manpower

1. The aging of manpower is faster than that of population. The development of China's manpower in the 21st century will have two remarkable characteristics: First, there will be a drop in number because of a drop in birth rate beginning with the 1970's. Second, the average age of manpower will increase and the proportion of the elderly in the laboring population will increase. According to estimates, in the year 2020, the laborers over 45 will account for as high as 60 percent of the laboring population.

The laboring population will decrease and there will be a relative shortage of manpower supply. In around 2015, the laborers born after liberation will start withdrawing from the laboring population (20 million a year). However, there will be a maximum of only 10 million young laborers replacing them every year and in some years less than 10 million.

The development of science and technology will open up new trades and increase the demand for manpower. Hence, the problems of manpower aging and manpower supply shortages will crop up in the 21st century.

2. The measure for resolving the short supply of manpower in the 21st century.

We should acquire a clear understanding of this fundamental change in the supply and demand of China's manpower: The unlimited supply of labor in the latter half of this century and the relative short supply of labor in the next century (21st century) constitute a realistic and complicated problem which should not be treated lightly.

We should comprehensively take a long-term view and adhere to and improve family planning work so that manpower will annually increase in a balanced manner and not cause a serious loss to the economy.

We should readjust the production setup, rationally distribute manpower between the urban and rural areas, between regions, and between departments; and make the most of labor resources.

We should reform the labor management system, allow the flow of manpower, open up a labor market, and introduce a competition mechanism to bring about an optimum combination of labor and means of production.

## AGRICULTURE

**State Council Forms Water Resources Group**  
*OW1510185388 Beijing XINHUA Domestic Service*  
*in Chinese 1732 GMT 13 Oct 88*

[Text] Beijing, 13 Oct (XINHUA)—In order to unify the management of water resources throughout China and exercise more effective leadership over water and soil conservation, the State Council recently approved the establishment of the National Leading Group for Water Resources and Water and Soil Conservation and at the same time decided to abolish the original National Coordination Group of Water Resources and the National Coordination Group for Water and Soil Conservation.

The newly established leading group is an agency of the State Council for coordinating and examining work related to water resources and water and soil conservation throughout China. Its major responsibilities are: examining and approving comprehensive plans for large rivers throughout China; handling and coordinating major water-related contradictions among provinces; handling major problems among departments concerning the comprehensive utilization of water resources; examining and deciding on important principles and policies for water and soil conservation throughout China; and handling key issues related to prevention and control in major areas.

The Office of the National Leading Group for Water Resources and Water and Soil Conservation is set up at the Ministry of Water Conservancy, without additional staff. A vice minister of water conservancy is concurrently head of the office. The day-to-day work is handled by the relevant functional departments of the Ministry of Water Conservancy.

Tian Jiyun, State Council vice premier, and Yang Zhenhuai, minister of water conservancy, are respectively head and deputy head of the leading group. Qian Zhengying, vice chairman of the national CPPCC Committee, is adviser.

**Wu Guanzheng, Huang Huang at Agricultural Meeting**  
*OW0411160088 Nanchang JIANGXI RIBAO in*  
*Chinese 23 Oct 88 p 1*

[By JIANGXI RIBAO reporter Lai Genshun]

[Excerpts] The Jiangxi Provincial People's Government sponsored a telephone conference on 22 October to discuss this year's winter planting assignments and agricultural issues that must be urgently resolved. Present at the conference were special commissioners, mayors, and magistrates of all prefectures, municipalities, and counties; their deputies and leading members of various units in charge of agriculture; and leading comrades of various relevant provincial departments.

Huang Huang, deputy governor of Jiangxi, addressed the meeting chaired by Wu Guanzheng, deputy secretary of the Jiangxi Provincial CPC Committee and governor of Jiangxi.

In his speech, Comrade Huang Huang discussed Jiangxi's winter planting and two other agricultural issues. He said: We must, first of all, resolutely accomplish all assignments for this year's winter planting. While the general situation of winter planting is good, the progress shows that the province is way behind the target. By 21 October, the province had finished planting on 18.8 million mu of cropland, or 72.7 percent of the target. This included 12.21 million mu of green manure, or 76 percent of the planned planting target; and 4.13 million mu of rapeseed (including areas converted from seedling cultivation), or 69 percent of the planned planting target. [passage omitted]

Second, we should intensify cultivating and purchasing good hybrid rice strains. One very important thing during this year's winter production is that we must do everything possible to cultivate and purchase hybrid rice strains which are essential for reaping a bumper harvest next year. Third, we must make efforts to alleviate the shortage of money supply in the rural areas. All local authorities must take effective measures to deal with this problem appropriately. While tightening money supply is something very important for the general situation, the money needed for important production projects, such as procurement of agricultural and nonstaple food, must be insured and cannot be interrupted—even intermittently. [passage omitted]

During the telephone conference, Comrade Wu Guanzheng urged all prefectural, municipal, and county governments to display a high sense of responsibility and earnestly accomplish all agricultural assignments. He said: The outcome of next year's agricultural production depends to a large extent on our performance this winter and next spring. This being the case, the provincial party committee and the provincial government maintain that significant progress must be made during this year's winter planting. This is a major step for ensuring effective supply and we must make sure that it is a successful step. As for building and repairing irrigation facilities during winter, we must mobilize the masses to combat difficulties. We must also properly plan the use of manpower so that they will fight hard during this winter and next spring. This is a major measure for ensuring a bumper agricultural harvest next year.

**Using Taxes To Regulate Grain Output**  
*HK0911060388 Beijing JINGJI YANJIU [ECONOMIC*  
*RESEARCH] in Chinese No 9, 20 Sep 88 pp 71-75*

[Article by Tang Renjian 0781 0088 0256 of the Department of Policies and Laws of the Ministry of Agriculture, Wu Yue 0702 6460 and Yang Qiron 2799 0796 7837 of the Agricultural Economics Department of the Beijing University of Agriculture: "Adjusting Grain Production by the Lever of Taxation"—This article is a report on the topic of grain by the Economic Policies Research Center of the Ministry of Agriculture, conducted by Guo Shutian 6753 2579 3944, and Zhou Binbin 0719 1755 1755; participants in the discussions include Gao Hongbin

7559 7703 6333, Zhang Wenbao 1728 2429 1405, Zhang Hongyu 1728 4767 1342, Huang Shouhong 5576 1343 1347, and Wang Zhonghai 3769 1813 3189]

[Text]

### I. Grain Problem and the Economic Lever

Since 1978, the growth of grain production in our country has astonished the world. But grain shortage is still the basic state in our country's grain market. According to our country's development plan of the national economy, the gross output volume of grain in the year is planned to amount to 500 million tons but by the end of this century the social demand for grain is anticipated to amount to nearly 550 million tons, leaving an anticipated shortage of around 50 million tons. Even according to the goal of the grain development plan, from now on the yearly increase in grain production should be four million tons. This is not an easy accomplishment.

What is the way to rid ourselves of this difficulty facing grain production? The way out lies in gradually realizing the commercialization of grain, making grain maintain a rational comparative price with other agricultural products and industrial products, and thereby raising the comparative benefits of grain so as to stimulate grain production.

Realization of the commercialization of grain implies that the series of economic operational procedures such as the production, purchasing, processing, and marketing of grain must use the market mechanism as its basis and be guided by it. The interest relations between the producers, operators, processors and consumers must take the market as the nucleus and accept on a basis of equality the norm and restrictions of the market regulations. However, commercialization of grain must also be a commercialization with the government's rational intervention. This is not only because grain is a special commodity, with a bearing on the national economy and the people's livelihood, but also because grain is affected by special conditions in production; and the procedures themselves of value realization and value compensation must have the government act as the "chief producer" and do the regulatory work.

The above-mentioned two-fold significance of grain commercialization implies that the government's grain control structure must correspond to the essential demands of market operations. Before the reform of the economic structure, the operational system of our country's self-sufficient and semi-self-sufficient natural economy led to the unitary character of the economic control structure and to the administrative nature of the regulatory and controlling tactics. After 1979, the government gradually reduced the scope of the unified levy and purchase of agricultural products and in 1985 abolished the system of the unified purchasing of grain, replacing it with fixed purchases by contract. However,

due to the serious turns in many of the economic relations, in the course of actual execution, contractual fixed purchase of grain frequently became a unified purchase in disguise. The cause lay in that the government still adhered to the traditional stiff form of an administrative or semi-administrative nature in the production and marketing of grain and lacked the controlling tactics of such economic levers as indirect and highly flexible pricing and taxation policies.

After the establishment of the Republic, although in the process of the control of the production and marketing of grain we did pay some notice to the use of the price lever, yet this was confined to merely using the price lever as a distribution measure, that is, through the unified purchasing of grain at low prices for the purposes of seeking funds for urban industries and providing the urban residents with food grain at parity price. Thus, the regulatory area for the production and marketing process of grain was a narrow one. After the 3d plenary session of the 11th CPC Central Committee, we began to use the price lever to stimulate grain production. In 1979 and 1982, for two times in succession, the purchase prices of the great majority of agricultural products including grain were raised on a large scale and this became the policy causing an annual increase in grain production from 1979 to 1984. Nevertheless, the taxation lever still did not draw forth sufficiently important attention. The taxation principle of a natural economy calling for "stabilizing the burden and increasing the production but not the taxation" was all along applied to agriculture. This pure and simple method of depending on prices to regulate grain production could not avoid meeting with contradictions that the price lever itself could not overcome.

1. Inability to keep intact the pluralistic interest relations. Prices change following changes in market supply and demand. Price has an "antichange" character versus the regulation of the interests of the producers and consumers. Assuming other conditions remaining unchanged, a rise in price benefits the producer and is disadvantageous to the consumer. When the price falls, it is disadvantageous to the producer but advantageous to the consumer. In recent years, the most perplexing problem encountered by the state in the reform of the price control structure was precisely this. Raising the price of grain inevitably led to succeeding price rises in processing and operations that followed behind production and thereby caused changes in the interest pattern formed and fixed for a long time between the consumers, the producers, those engaging in processing work, and the operators in general. The consumers' interests were violently affected. In order to avoid the overly large adverse effects on consumers because of the rise in grain price, the government was forced to resort to the form of "reversing" the purchase and sales prices of grain, on the one hand openly subsidizing the consumers and at the same time secretly compensating the purchasing, wholesale and retail sales stages. Since 1979, keeping pace with the rise in the purchase price of grain, there has been an

obvious tendency of a rise in the price subsidies spent by the government in the purchasing and distribution of grain. Thus, in 1979 the amount of subsidies was 10.277 billion yuan but rose to 22.741 billion yuan in 1984, an increase of 121.3 percent. On the average, the annual growth rate was 24.26 percent. The increases in subsidies naturally increased the budget deficit and the state's finance could hardly bear this in its entirety. Hence compensation was sought from raising the prices of the means of production used in agriculture. In turn, this greatly diminished the benefits received by the peasants from the rise in the purchase price of grain. With the increase in the cost of the materials consumed in grain production, the government, for the sake of maintaining the activism and enthusiasm of grain producers, could not but resort again to raising the purchase price of grain. The result was falling into a dilemma that could hardly be solved.

2. Causing great disparities in the interests of different producers. Following the loosening of agricultural product prices, and the prices of certain agricultural products being no longer under strict control, the disparity in the benefit level between grain and the economic crops was steadily widened, unprecedentedly great in some cases. In 1984 compared with 1978, the per-mu net increase in grain receipts was 35.44 yuan, that for the economic crops was 95.79 yuan, that for edible oils 38.33 yuan, and that for fruits 402.95 yuan. Following the opening up of the markets in 1985, the average per-mu receipts of grain increased by only 1.63 yuan over the preceding year, while in the case of the economic crops, the increase was 31.86 yuan, that of edible oils 5.34 yuan, and that of fruits 304.19 yuan.<sup>1</sup>

3. Arousing periodicity in the imbalances of supply and demand relations. Different from the prices of industrial products, the prices of agricultural products display a delayed reaction to the regulation of agricultural production. Under the conditions of the low degree of socialization and organization of rural production in our country and the extremely incomplete system of dispatch and feedback of news and information, the unitary and simple employment of the price level to regulate agricultural production can very easily cause periodic imbalances in supply and demand relations.

Looking at the future developments, following the reform of the formation mechanism of grain prices, grain prices will be mostly determined by market supply and demand relations and the government's management of grain prices will be shifted from the past direct price fixing to indirect control. Thus, relatively speaking, the status of the price lever in the government's economic regulation will be gradually downgraded. In our opinion, under the precondition that the general level of grain prices remains unchanged, and by means of readjusting the kinds of taxes and the tax rates and realizing the slight adjustment and balancing of the interest relations of the various main bodies, the taxation lever, in its

capacity as the most suitable measure for the succeeding coordinating regulation, will undoubtedly display its increasingly important regulatory role.

## II. Drawbacks of the Existing Agricultural Tax System

Our country's existing agricultural taxation system was born from the "PRC Agricultural Tax Regulations" promulgated in 1958. Over the past 30 years, all the natural, economic and social objective conditions have become things of the past. Yet in the agricultural tax, the tax items, tax rates, taxation objects and method of computing taxes have not gone through any corresponding readjustment. They are unable to suit the changed conditions and cannot display the taxation lever's regulatory role over the agricultural economy.

1. The aging of the tax system and the unitary state of the tax kind have caused noncollection and redundant collection. The kinds of taxes related to the plantation trade are the agricultural tax and the tax on special agricultural and forestry products (in reality, it is the same as the agricultural tax). The agricultural tax principally collects tax from such large crops as grain, cotton, edible oils, and sugar. According to the existing tax regulations of the tax on special agricultural and forestry products, aside from designating timber, bamboo, tea leaves, tobacco, raw lacquer, wool, black edible fungus, fishery products and natural resin as agricultural sideline products subject to tax, all other products are exempted. As a result, certain products such as flowers and nursery stock and other highly profitable economic crops have become the "dead corners" in tax collection. Moreover, because of the lack of coordination in arranging the tax items, certain products are subjected to redundant taxation. For example, the following six kinds of taxable products: tea leaves, bamboo, edible fungus, raw lacquer, and fish are subjected to both the agricultural tax and the tax on special agricultural and forestry products.

2. Serious dislocation between the nominal tax rate and actual burden. Viewed from the land area for tax computation, the gross area of cultivated land in the country has shown a tendency to steadily decrease. At present, in many localities, taxation is in force but there is no land for taxation. Concretely speaking, inside a certain locality, due to the varying conditions in the increase or decrease of cultivated land in different places, in some places there is tax but no land for taxation whereas in certain other places there is land but no tax is collected. Seen from the output volume for tax computation, the burden imposed by the agricultural tax tends to be a low one. After 1978, the ratio occupied by the agricultural tax in the gross output value of agriculture has never amounted to 2 percent. In fact, from 1984 to 1986 it was only 1 percent.<sup>2</sup> This period has become in history the period of the lowest agricultural tax burden. In the agricultural production process, the agricultural tax had nearly no regulatory role to speak of.

3. The effects of the existing drawbacks of the agricultural tax system on grain production are most obvious. They are concretely manifested in the following:

(1) The level of the tax burden of grain is especially heavy while that of the economic crops is especially light. The benefits received by grain and economic crops greatly differentiate one from the other, but the level of the tax burden differs only slightly. From 1978 to 1985, the average yearly per-mu tax burden was 2.32 yuan for the six kinds of grain, while that of three kinds of edible oils was 2.18 yuan, or 6 percent lighter than that of grain but the net receipts or income was 52.2 percent higher than grain. The tax burden for four kinds of economic crops was 3.28 yuan, or 64.6 percent higher than that of grain but their net receipts or income were 296 percent higher grain.<sup>3</sup> A study of the composition of the gross volume shows that in 1986, in the gross volume of purchases of agricultural and sideline products, the purchase volume of grain was 27.1 percent and the purchase volume only economic crops such as cotton, edible vegetable oils, hemp, melons, and vegetables already occupied 26 percent. But in the gross volume of the collection of agricultural tax, the tax on grain occupied 80 percent, amounting to about 3.5 billion yuan whereas the tax on the economic crops amounted to only 20 percent, or around eight billion yuan. The fact that the level of the tax burden of grain was extraordinarily high while that of the economic crops was extremely low was an important factor that should not be overlooked for the peasants' loss of enthusiasm for planting grain in recent years, aside from the price factor.

(2) The inability to effectively regulate the benefits of land of different grades caused inequality in the profits and taxes on grain produced by users of different grades of soil. Although in assessing the normal yearly output volume of different grades of land, the existing agricultural tax, though paying notice to the problem of soil fertility, basically does not consider the proximity or city areas and the factors of the different efficiency rates regarding the continuity. It does not consider also the investments on the same piece of land. In the various regions of the country, the average per mu tax burden has no regular deviations but the profit level differs greatly. This has caused many irregular cases of inequality between profits and taxes. For example, in 1986 in Beijing, the level of the tax burden of land was higher than that in Heilongjiang and Shaanxi respectively by 29.1 percent and 41.3 percent but the profit level was higher respectively by 396 percent and 352.8 percent. In Guizhou Province, the per-mu profit level of grain was lower than Tianjin and Anhui respectively by 76.7 percent and 63.5 percent, but the level of the tax burden was respectively higher by 10.8 percent and 7.3 percent. Seen from the per-mu profit and tax conditions of grain in Zhejiang Province in 1986, the average per-mu tax burden in the midland places of Ningbo, Zhaoxing, Jinhua, Taizhou and Zhoushan was higher by 34.7 percent over than that in Hangzhou, Jiaking and Huzhou, which have easy communication facilities and

thriving markets, but their profits were higher than the latter by 13.7 percent.<sup>4</sup> Due to the inability of the existing agricultural tax to effectively regulate the benefits of land of different grades, it is difficult to make the users of land utilize land rationally and with high efficiency.

(3) The long-term combination of taxes and sundry levies has formed a "reverse regulation" in grain production. Besides paying the agricultural tax, the peasants must make at least three other deliveries to the higher levels: one of them is the "price scissors" between agricultural and industrial products in the nature of a tax, amounting to roughly 40 billion yuan a year; the second consists of various kinds of social burden in the nature of "donations" which, calculated at each peasant bearing a yearly burden of 25 yuan, makes the total amount of the peasants' burden at around 20 billion yuan; and the third, bearing the nature of "contributions," may be called the "price differential impositions" on the unified purchases and fixed purchases of grain. Thus, there is a difference between the price fixed by the state in its unified purchases of grain and the market price of grain. According to materials supplied by the relevant departments, in the 9-year period from 1979 to 1987 the average price difference between the unified purchase price and the market price of six kinds of grain was 0.975 yuan per every 50 kilograms. At present calculated on the basis of the state annually purchasing 50 billion kilograms of grain, the price difference amounts to a total of around 10 billion yuan. The above three items plus the agricultural tax amount to the peasants yearly contributing to the state a total amount of about 74 billion yuan, averaged 92.50 yuan per person and 49.33 yuan per mu. These burdens actually fall on the persons of the grain producers.

The coexistence of many kinds of contributions and donations along with the agricultural tax constitutes a big and special feature in the rural financial and taxation policy of our country. For a long time it has formed a complicated and complex relationship in the regulation of interest and has brought along many interventions in the formulation, enforcement and revision of the agricultural policy, culminating in the functions and role of certain regulatory measures repelling each other, offsetting each other and the results of the regulation going against the original objects of the regulation. The regulatory relationship between the price differential imposition and the agricultural tax is a typical example. Whether people agree or not, in comparison with the "price scissors" and the social burdens, the price differential imposition belongs more to the nature of taxation, because the price differential imposition, formed whether by unified purchase or purchase by fixed order is an imposition on the strength of the state's administrative power. Like taxes, the price differential imposition is of a compulsory nature, noncompensatory and fixed. The agricultural tax and the price differential imposition jointly formed direct deductions from the earnings or income of grain production.

In principle, the price lever and the taxation lever should be used cooperatively, but because the differential price imposition itself no longer possesses the function of a price lever but is more of the nature of a tax, and also because it and the agricultural tax in its true sense are after all not the same with each reflecting its own different economic relations, the result of the differential price imposition and the agricultural tax simultaneously playing their role on grain production is the generation of a kind of "adverse regulation." This assumes the fixed purchase price and the agricultural tax remains unchanged, when grain supply lags behind demand, the market grain price will inevitably rise. This, on the one hand, can stimulate the enthusiasm of the grain producers to produce more grain but, on the other hand, due to the difference between the market price and the fixed price being widened, the producers, finding that not much gain can be derived from delivery of the grain under the contractual fixed price, will try every means to deliver less of the grain under the contractual fixed price and will sell more grain at the negotiated price. This was the cause of the situation after the autumn harvest in 1986 when the peasants in the various localities universally were unwilling to sell or even resisted selling and the purchase of grain by state-run commerce was unprecedentedly obstructed. Contrarily, when supply exceeds demand in grain production, the market grain price will inevitably fall. While originally this should compel the producers to cut down their production but because the differential between the market grain price and the unified purchase price of grain is reduced and the producers feel that there is still a profit from producing the portion of grain for unified purchases, large quantities of grain are then sold to the state. This, to a certain degree, stimulated the enthusiasm of the producers to expand grain production. Between 1983 and 1984, the condition of the national production and marketing of grain had a definite connection with this role of "adverse regulation" through this sort of differential price imposition.

### III. Proposition for Reform of the Agricultural Tax System

1. Universal collection of products tax on agricultural products. The objects of the products tax on agricultural products include the sales receipts of all agricultural and sideline products. The state makes a unified demarcation of the tax kinds while the concrete kinds of products subject to the tax are determined by the local governments themselves in accordance with the local conditions. Collection of the tax will be made alongside with the sale of the products, more sales will result in more taxes collected, fewer sales will result in fewer taxes collected; while no sales will result in no tax collection. Graded tax rates will be enforced according to the prices and profit level of the different products and the tax rates will be corresponding readjusted in accordance with the undulations through the years in the output quantity, prices and receipts of the various kinds of agricultural products. The tax should be a jointly-enjoyed tax

between the central government and the local governments. This is because; (1) The tax has the special features of there being an extensive area affected by the tax, a large collection volume, and stable tax sources. If the state intends to implement in agriculture its macro-economic wishes, the products tax will no doubt be a strong and powerful controlling measure; (2) following the products tax superseding the agricultural tax as the principal kind of tax, the county and village governments, in their capacity as representing a collective economy, in order to manifest their economic ownership right and exercise the functions of organizing and managing the collective economy, must have the power of disposal of a substantial amount of the products tax; (3) It is beneficial in arousing the dual enthusiasm of the central government and the localities in binding tightly together the interest relationships between the two parties.

Following the universal collection of the products tax on the agricultural and sideline products, the existing tax on agricultural and forestry special products, the tax on transactions in country fairs and the cattle stock transactions tax should be abolished and collection of the butchery tax should also be stopped. By so doing, the products tax will on the one hand cover all the agricultural and sideline products and on the other hand greatly simplify the categories of the agricultural tax, thereby improving the transparent degree of the finance and taxation structure.

2. Opening the collection of land use tax. The purposes of this tax are: (1) Controlling the acts of random occupation and random use of land and protecting the scarce and valuable land resources; and (2) Regulating the grade-differential benefits obtained by users of land from the difference in soil fertility and location of land. There are in general two kinds of tax payers of land use tax. First, agricultural users of land; and second nonagricultural users of land. Generally speaking the latter category should pay a heavy tax whereas the former category should pay a relatively lighter tax rate; users of land in cities and towns and nearby suburbs should pay a higher tax than users of land in far-off suburbs and frontier areas; as for the use of land internally in agriculture, use of cultivated land particularly of the superior grade should pay a higher tax than use of non cultivated land or cultivated land of the medium grade or inferior grade; and in the case of using hilly land, grassland, beaches and barren land for the opening up purposes of production projects, collection of the tax may be exempted or delayed before actual earnings made. On land for non agricultural use lying idle and on land for agricultural use being abandoned from farming and allowed to become barren, the tax collection rate should be doubled. Regarding conditions of planting different crops on the same grade of land, the tax burden need not be differentiated since the productivity rate of the same grade of land is the same while as for the different earnings from the planting of different crops, adjustment may be made by means of the products tax.

The tax on use of land (including the occupation and use of cultivated land) should in its entirety be retained as local financial revenue, principally belonging to the financial receipts of counties and villages. The land tax collected for the use of state-owned land for non agricultural construction should also be retained as local financial revenue, to be handled and used by financial departments at the provincial level. The tax on use of land collected from land for agricultural use will principally be used on the maintenance and upkeep of land. Tax on the use of land collected from land occupied for non agricultural use and tax on occupation and use of cultivated land will principally be used on the reclamation and restoration of cultivated land.

3. Changing the price differential imposition on fixed purchases of grain and necessary social burdens into the products tax and its surcharges for collection.

(1) The price differential imposition should be incorporated into the proper or principal products tax for collection. This is a coordinating measure to smooth out the grain price. The price differential imposition on fixed purchases of grain being the product of a definite socio-economic development stage, its abolition will be hard to accomplish for a prolonged period of time. But it should be changed from being in the secret to being in the open and be changed into a tax for collection. Seen from the state's side, incorporating the price differential imposition into the products tax for collection on the one hand can fully let loose the fixed purchase prices of grain and truly follow the trade and market trend. On the other hand, there will be no need to increase financial outlay. On the peasants' side, economically speaking there is no newly increased burden in gross volume. Regarding this, so far as grain is concerned, since in the concrete planning of the tax-burden level of different crops it is possible to shift a portion of the price differential imposition on fixed purchases of grain to the planters of the economic crops, the tax-burden level of grain will be made lighter. Changing this imposition into a tax proper is a transitional and temporary measure. When and as the state has in a comprehensive way let loose the purchasing and marketing prices of grain, the economic significance of changing the price differential imposition on fixed purchases of grain into a tax proper for collection will vanish.

(2) Changing the necessary social burdens into surcharges of the products tax for collection. By so doing the aim is to replace the various social burdens of the peasants at present, so that the necessary social burdens borne by the peasants become fixed and legalized. The total of the receipts from these surcharges of the products tax should be subjected to the disposal of the finance bureaus of the counties and villages. They should be used on various kinds of social public welfare enterprises and on construction.

4. Equalizing the tax burden level of grain and the economic crops. For this purpose, it is necessary to follow the following three conditions in planning the tax

rates for the products tax on the different products: (1) production cost and level of profit rate of different products; (2) different products' gross purchase volumes and their ratios of the gross purchase volume of agricultural and sideline products; and (3) the general level of the tax burden that the products should bear. To maintain the existing level of burden of the agricultural tax and based on the principle of not increasing the burden of the peasants and at the same time not letting the state increase its expenditures, in our supposition, collection of the land tax should be about four billion yuan (about equivalent to the existing gross volume of the agricultural tax) occupying about 0.9 percent of the gross output value of agriculture; collection of the products tax should be about 12 billion yuan (equivalent to the amount of price differential imposition on the fixed purchases of grain and a portion of the social burden), occupying 2.8 percent of the gross output value of agriculture, collection of the products tax surcharges should be about four billion yuan, or about 0.9 percent of the gross output value of agriculture. In 1986, the purchase volume of grain, the purchase volume of such economic crops as cotton, edible oils, tea leaves, dried fresh fruits, dried fresh vegetables, jute, and bluish dogbane, the purchase volume of cattle, fowls, and fishery products and the purchase volume of other products each occupied about 25 percent of the gross purchase volume of the social agricultural and sideline products; hence the burden of each of these four categories of products should be about 25 percent of the products tax, that is, each bearing a burden of three billion yuan. Speaking concretely about the plantation trade, the tax burden is about eight billion yuan (grain, three billion yuan; economic crops, three billion yuan; and other products of the plantation trade, two billion yuan). Our proposition of the tax rates of the products tax on grain, the economic crops and their principal products is as follows: Grain, 5 percent; economic crops, 9 percent, cotton and edible oils, 7 percent (tax rate on edible oils should be slightly lower than that on cotton); dried fresh vegetables, 10 percent, and dried fresh fruits, 12 percent.

#### Footnotes

1: "Summaries of Materials relating to the cost of production, benefits and labor productivity rate of the country's major agricultural and sideline products," edited by the Department of Agricultural Prices of the State Commodity Price Bureau and others

2. See "Handbook on Taxation and Finance," published by the Economic Management Publishing House, 1987 Edition

3. "Summaries of Materials Relating to the Cost of Production, Benefits and Labor Productivity Rate of the Country's Major Agricultural and Sideline Products," edited by the Department of Agricultural Prices of the State Commodity Price Bureau and others



4. "Summaries of Materials on the Cost of Production of Agriculture, Animal Husbandry and Fishery Products in the Whole Country: 1986," edited by the Operation and Management Principal Station of the former Ministry of Agriculture, Animal Husbandry and Fishery

**Solving Agricultural Product Pricing Problems**  
40060096a Beijing JIAGE LILUN YU SHIJIAN  
[PRICE THEORY AND PRACTICE] in Chinese  
No 7, 20 Jul 88 pp 31-38

[Article by Yao Jinguan 1202 0093 6034 and Li Jianping 2621 1696 1627: "Pattern of Agricultural Product Price Movements and Regulatory Countermeasures"]

[Text]

### **I. What the Dramatic Fluctuations in Agricultural Prices of the Past Year Have Revealed to Us**

The step-by-step reform of the agricultural products circulation system and the price control system following the Third Plenum of the 11th Party Central Committee has expanded peasant autonomy over farm production and the setting of prices. The overall level of prices for agricultural products has risen gradually; however, there are also great differences in the prices of various agricultural products. For example, prices of some products have risen steadily; others have risen dramatically; and some have fallen little by little, but the overall trend has been toward rise. Most serious has been the great rise and fall in prices at a time of "difficulty in selling," and "difficulty in buying," which has occasioned extremely great fluctuations in production that have seriously hurt development of the country's agricultural production and the stability of the national economy. For example, there was the "difficulty in selling grain," and the "difficulty in selling cotton" of 1984, the "difficulty in buying grain," and the "difficulty in buying cotton" of 1986 and 1987, the nationwide "difficulty in selling hogs" that occurred during the first half of 1986, and the "difficulty in buying pork" since 1987. Then there has been the jute and ambary hemp affair, the ramie hemp affair, the Chinese wolfberry [*Lycium chinensis*] affair, the large-headed atractylodes rhizome [*Rhizoma Atractylodis Macrocephalae*] affair, the rabbit fur affair, etc. During the past several years, numerous native byproducts have gone round and round in a spiral of "great demand for commodities—numerous buyers rushing to buy—a rise in prices—mindless expansion of production—great increase in availability of commodities—no buyers—a drop in prices—reduced availability of commodities—another rush to buy—another rise in prices...."

What are the reasons behind this phenomenon? Is it an isolated and accidental phenomenon, or is there a pattern to it? It is generally known that reform of the country's agricultural product prices comes up against two elements that cause price rises. The first is that the country's agricultural produce prices have been overly

low for a long time, so when price restrictions are suddenly lifted, the role of the law of value spontaneously causes prices to move close to their value. This produces a price rise that is in the nature of repayment of an overdue account. The second is that the state has put too much currency into circulation in recent years, which has created an inflationary rise in prices. Nevertheless, the foregoing two reasons cannot by themselves explain the underlying factors causing the unpredictability of commodity price changes in the country during the past several years. Therefore, further study is needed of the pattern of price movements for agricultural products under the system of free choice farming in order to find the deep underlying reasons giving impetus to agricultural product price movements, thereby enabling us to find countermeasures for the control of agricultural product price movements and to begin to establish a Chinese style agricultural products price control system.

### **II. Preliminary Analysis of the Pattern of Agricultural Product Price Movements**

Not only is there a pattern to agricultural product price movements that applies to price movements for commodities in general, but a distinctive pattern stemming from the special factors involved in the production, flow, and consumption of agricultural produce also exists.

A. Frequency of agricultural product price movements, and the existence of two movement cycles.

When restraints on the price of agricultural products are loosened, incessant movement of price levels results from the action of supply and demand. Analysis of this process of rise and fall, advance and retreat can reveal the existence of two different cycles of change.

The first such cycle is the seasonal movement of prices that follows in the wake of seasonal changes in the production and marketing of agricultural products. Since agricultural production depends on the cycle of nature, the influence on prices of seasonal changes in production and marketing is more marked for agricultural products than for other commodities. The seasonal price cycle for agricultural products goes generally from high to low to high over the course of a year. However, a price cycle that goes from high to low may occur for some special agricultural products, or because of certain reasons connected with production, or because of consumption habits. Alternatively the cycle may go from high to low, or there may be two cycles in a single year, one during the main peak period and the other during a lesser peak period. No matter the nature of the price movement cycle, so long as we fully understand the pattern of movement, we can make conscious use of it. Of course, gaining a real understanding of the pattern of seasonal price movements, and controlling the use of seasonal price differences is still extremely difficult. This is because the extent to which different products depend on the seasons, annual changes in the weather, and people's ability to create a microclimate are constantly changing. People can only summarize their practical experiences so as to improve gradually their ability to apply them.



'Second are cyclical price movements accompanying changes in agricultural product supply and demand that are brought about by the functioning of the market mechanism. Such movements are price movements caused by producers' or consumers' pursuit of economic interests, and we term them price movements that are attributable either to the economic cycle, or to the supply and demand cycle. As with other commodities, the laws governing agricultural product price movements attributable to the economic cycle bring about alternating cyclical changes in supply and demand, and cyclical movement of prices through the operation of the market mechanism. Under normal circumstances, such movements can automatically regulate both conflicts between supply and demand and price levels, as well as help socio-economic development. However, the occurrence of abnormal movement can lead to large ups and downs. The situation in some foreign countries shows the economic movement cycle for agricultural product prices is most marked for livestock products. Since the farming industry is most prone to the effect of changes in natural conditions, and since livestock raising can be done entirely under human control, its movement cycles occur as changes in the price of livestock fodder occur. For example, the movement cycle for chicken egg prices is between 3 and 4 years; for beef cattle, it is approximately 10 years; and for hogs between 2 and 3 years. A look at the hog price movement cycle shows it to have been generally identical with changes in the country since 1979.

One thing requiring explanation is that though the cyclical price movements brought about by the operation of the market mechanism form a pattern common to agricultural products and all other commodities, the pattern of economic cyclical movements for agricultural products differs from that of industrial manufactures and other commodities in the following several ways.

1. Since agricultural production depends on natural conditions, and since production cycles are fairly long, price signals in any given period can play a role only in the following production cycle. Thus, the regulatory role of prices is frequently delayed by one production cycle. However, for industrial manufactures, the supply and demand for which can be adjusted at any time on the basis of price, price changes show no marked cycles.

2. Since China is practicing a system of family contracting of farming in the present stage of agriculture, the peasants follow the baton of market prices to adjust their production virtually completely in step and in the same direction. This creates great ups and downs in production extremely easily, and causes a cyclical movement in prices as an accompaniment to the ups and downs in production. In industry, where information flows more freely and shifts in production are relatively less easy, such a situation is less likely to occur.

3. For most industrial manufactures used in daily life, the rise and fall in prices has a virtually simultaneous effect on the supply and demand of commodities; hence,

prices can simultaneously play a role in regulating supply and demand. However, in the case of agricultural products, which are the main means of the people's livelihood, the relatively small elasticity in demand means that the regulatory role of prices shows up mostly on the supply side, price movements attributable to the economic cycle being manifested primarily as the result of the influence of supply (i.e., production).

B. Price of agricultural products affect supply elasticity and demand elasticity in distinctive ways, and prices also have a marked magnifying effect on supply and demand.

1. The effect of agricultural product prices on supply elasticity is not consistent; its changes are fairly complex.

There is generally relatively little elasticity in the total supply of agricultural products and in the supply of some primary agricultural products. This is because, first of all, production of agricultural products is limited by natural conditions such as land, water conservancy, and weather, so the scale of production cannot be expanded within a short period of time. Second, the production cycle for agricultural productions is fairly long; thus, regulation of production requires a process that takes a certain amount of time. Third, modern agriculture requires large investment, and recovery of capital is slow; moreover, at a certain level of productivity, there is a diminishing return on investment. Consequently, producers generally will not invest lightly, and once they have invested, even should prices fall, they will do all possible to maintain production by following the law of marginal costs, and they may even go so far as to use other measures to increase production in order to make up for losses occasioned by declining prices. As a result, a certain amount of market supply is maintained. Fourth, the extent of commercialization of the country's agricultural products is low at the present stage, and commercialization is jumbled together with production for self sufficiency. In order to insure their own supply of food, peasants will maintain the required output even in a loss situation, thereby muting supply problems.

For certain specific kinds of products, supply elasticity may be very great. Examples include some cash crops for which the production cycle is not too long, agricultural byproducts, Chinese medicinal herbs, and products of the livestock raising industry and the aquatic breeding industry. Stimulated by high prices, production of these products may be boosted within a short period of time to produce an oversupply. Then when supply is greater than demand, prices will inevitably fall, and hasty shifts will be made in production causing an abrupt reduction in the availability of these commodities. This may be carried to the point where, in some years, high prices may cause a devastating harvesting of forest timber and wild medicinal herbs causing a short term glut in market supply.

In an overall sense, the effect of agricultural product prices on supply elasticity is not consistent. This is because the supply of agricultural products labors under the dual restrictions of both natural conditions and prices, supply elasticity thereby being in a complex, changeable, and unstable state. Moreover, a mutually restrictive relationship also exists in the supply of various agricultural products. For example, grain availability limits development of the livestock industry. A self-canceling relationship also exists among some agricultural products. For example, competition for land, funds, fertilizer, and labor exists between grain and cash crops, and even among different cash crops. Failure to handle product prices properly can have an adverse effect on the supply of other kinds of agricultural products.

In view of the foregoing, how to stabilize the supply of agricultural products is an important topic in the stabilization of agricultural product prices.

2. As far as the effect of agricultural product prices on demand elasticity is concerned, except for commodities in the nature of small luxuries, there is little elasticity, and demand is fairly consistent. This is the result of the nature of consumption of agricultural products. The reasons are as follows. Agricultural products that serve as the basic means of livelihood, such as grain, cotton, edible oil, meat, eggs, and vegetables are necessities for human survival, and their consumption is limited by physiological requirements. Though prices serve to regulate demand, there is little elasticity, and demand increases steadily with population increase and rises in living standards. Agricultural products that serve as industrial raw materials such as cotton, hemp, animal hair, silk, and the raw materials for the manufacture of sugar are restricted by the size of industry. Relatively speaking, the amount of demand for them is also fairly stable, and price elasticity is also small.

3. There is a very great difference among agricultural products in the extent of their supply elasticity and demand elasticity, and this shows up in many situations. There are four main groups of agricultural products in which these differences are manifested as follows:

a. Products having little supply elasticity and little demand elasticity as well, such as grain and cotton.

b. Products having much supply elasticity and much demand elasticity, such as fine quality vegetables, high quality aquatic products, and herbaceous fruits.

c. Products having much supply elasticity and little demand elasticity, such as meats, eggs, staple vegetables, and artificially cultivated Chinese medicinal herbs.

d. Products having little supply elasticity and much demand elasticity, such as perennial fruits, and wild, nutritional Chinese herbs.

Additionally, there are products such as grain for which a two track pricing system is used. Once people's basic needs for such products have been assured through fixed procurement and supply of a fixed ration, supply and demand elasticity produces great changes in the price of the portions offered for sale in free markets.

4. A special magnifying effect exists with regard to the effect on prices of changes in agricultural product supply and demand. The way in which prices of agricultural product prices reflect changes in supply and demand frequently far surpasses the degree of change in supply and demand. We have provisionally termed this phenomenon a magnifying effect. Take the following examples. Data from the Hebei Provincial Price Bureau show that in 1986 and 1987 the difference between the highest point and the lowest point for numbers of hogs in inventory was 17 percent, while procurement prices for the same period fluctuated 79 percent, or more than 3.6 times again as much as the fluctuation in production (i.e., supply). In another instance, China had a grain output of 407.31 million tons in 1984, 3.98 percent less than the 391.09 million tons of 1986. During the same period, however, country fair trade prices rose 22.77 percent, or 4.7 times again as much as the fluctuation in production. In Hebei Province, grain output for 1987 was 2.7 percent higher than for 1984, but the country fair trade price for the same period rose 37.1 percent. We can see such examples everywhere in real life.

Why do changes in supply and demand of agricultural products occasion such a magnifying effect? The reasons are as follows. First is the little elasticity of demand in response to agricultural product prices, showing that there is very little elasticity in people's demand for such essential products. As population increases and standards of living rise, demand for products increases absolutely. If there is a slight decrease in supply, people have no choice but to buy at a high price. This point can be explained by the relationship between price and supply and demand elasticity. The reflection of supply and demand on changes in price, and the reflection of price on changes in supply and demand are reciprocal phenomena. This correlation may be expressed in a formula. For example, if the price of an agricultural product rises 30 percent, but demand declines only 10 percent, then demand elasticity equals the absolute value of:

$$\frac{-10\%}{30\%}$$

which equals 0.33, or the reciprocal price elasticity equals the absolute value of:

$$\frac{30\%}{-10\%}$$

which equals 3, the latter being magnified more than 8 times again as much as the former. Since both supply and demand elasticity are greater for industrial manufactures, generally such a situation does not exist. The second reason occasioning this magnifying effect is the emergence of requisition purchases by different parties in the realm of the country's agricultural products circulation. Whenever supply of an agricultural product cannot meet demand, everyone rushes to buy. Requisition purchases force up prices, and prices spurt in an artificial magnification of the conflict between supply and demand, thereby creating serious price distortions. Thus, the existence of the magnification effect on supply and demand causes large ups and down in the prices of agricultural products.

It is extremely necessary for us to study and understand the special laws of movement governing agriculture product prices and supply and demand in order to be able to establish an agricultural products price control system.

C. Agricultural product price rises are rigid; however, under ordinary circumstances, it is difficult to obtain an average profit on capital from agricultural products. Consequently, reliance on support from outside agriculture is a general rule.

1. In virtually every country, there exists a trend toward a rise in agricultural product production costs.

Let us first take a look at changes in agricultural product production costs in China over the years. (See table.)

Major Agricultural Products Production Costs

Units: Yuan/50 Kg

| Product            | 1953  | 1957  | 1965  | 1975  | 1980  | 1985   | 1985 vs 1953 | 1985 vs 1980 |
|--------------------|-------|-------|-------|-------|-------|--------|--------------|--------------|
| Paddy Rice         | 3.95  | 6.03  | 9.68  | 9.34  | 8.67  | 9.33   | + 136.2%     | + 7.6%       |
| Wheat              | 6.86  | 7.69  | 12.36 | 13.68 | 14.42 | 13.60  | + 98.2%      | - 5.7%       |
| Corn               | 4.26  | 4.44  | 8.24  | 8.90  | 8.10  | 8.70   | + 104.2%     | + 7.4%       |
| Cotton             | 48.58 | 45.34 | 62.44 | 92.38 | 92.46 | 86.21  | + 77.5%      | - 6.8%       |
| Hogs               |       |       |       |       | 55.2  | 76.21  |              | + 38.0%      |
| Mulberry Silkworms |       |       |       |       | 96.38 | 146.61 |              | + 52.1%      |

In foreign countries, both developed countries and developing countries alike, and both market economy countries and planned economy countries alike, a trend toward rise in agricultural costs exists. In the USSR, for example, costs for the main agricultural products in 1978 ranged between 27 and 106 percent higher than in 1965. This included a 27.08 percent rise for cereals (exclusive of corn), 45.8 percent for unginned cotton, 106.8 percent for potatoes, 80.5 percent for cattle, 44.98 percent for hogs, and 96.7 percent for wool. In India, expenditures for investment in agriculture figured at constant prices were 83.5 percent higher during the period 1973-1974 than for the period 1950-1951. In the United States, farm production costs in 1978 were \$77.86 per \$100 of income from sales, up 64.9 percent from 1910, up 28.8 percent from 1930, up 29.4 percent from 1950, and up 2.8 percent from 1970.

The main reasons for the rigid rise in agricultural production costs were a trend toward diminishing returns from increased investment in an effort to obtain more products from limited land, need for greater investment of capital in bringing new land under cultivation than was required for existing land, no decline, or even the possibility of a rise in the wage bill per unit of agricultural product as a result of a rise in labor reproduction costs, despite a tremendous rise in the labor productivity rate accompanying the adoption of advanced techniques, and a tendency toward increase in prices for the means of agricultural production in most countries. The rise in the cost of the agricultural means of production during the past several years is generally known, and even in developed capitalist countries, a rise exists. Statistics from EC countries show a rise in prices for the

means of production of 2.1, 8.9, and 12 percent respectively for 1978, 1979, and 1980.

2. Prices of agricultural products have exhibited a rising trend under the dual impetus of rising production costs and rising demand.

In addition to the above-mentioned steady rise in production costs, the ever increasing demand for agricultural products brought about by population increase, rise in the people's standard of living, and the development of industry has caused an enduring situation in which supply is unequal to demand in most developing countries. Under such circumstances, the removal of restrictions means that prices are bound to drift upward. In addition, the labor productivity rate in agriculture has long been lower than in industry, and this plus the "price scissors" that has existed in the exchange of industrial and agricultural products has meant that the peasants have had a relatively meager life for a long time. With enlivening of the economy and the removal of price restrictions, the peasants want to emulate the life of city dwellers. They demand a decrease or the abolition of the "price scissors," and even demand a higher return on investment that presupposes a higher profit-earnings rate for products, and being able to keep pace in the production of industrial manufactures, doing business, and engaging in service trades, guided by competition to achieve "comparable gains," thereby objectively giving impetus to a steady rise in the price of agricultural products. During the past 3 years, China's retail sales index rose by 8.8, 6, and 7.3 percent respectively, with prices for non-staple foods rising an average of more

than 10 percent. For foods such as vegetables, meats, eggs, and fish, the increase was tens of percent or even several-fold, and it was invariably linked to the reasons stated above.

The increase in prices of agricultural products in developed capitalist countries was not that marked because, in countries like the United States, Canada, and EC countries, which had a consistent surplus of agricultural products, large quantities of agricultural products had to be exported. Prices were affected by the international market, and international market price fluctuations were fairly frequent, with frequent mutual drops in prices and dumping. Domestic markets were protected, however, prices were not falling drastically. Even so, under normal circumstances, prices of agricultural products tended to rise.

3. Despite the rigidity of agricultural product price rises, a look at the world as a whole shows that in both developed capitalist countries and in developing countries in which supplies are insufficient, agricultural product prices cannot realize an average profit on capital through their own movement, but must rely on their own accumulations to expand reproduction and improve the peasants standard of living. Thus, state intervention and support in the form of price subsidies has become the general rule.

This is more understandable for developed capitalist countries, because these countries' surplus production of agricultural products, plus the long agricultural production cycle, the slow turn over of capital, and difficulties in selling agricultural products on the basis of production costs mean that farmers cannot get an average profit on capital in the same way as industrial capitalists. For this reason, the governments of capitalist countries such as the United States, Japan, and Western Europe resort to "no lowering of farmers' income," and "evening out of the earnings of agricultural producers and other industries" with the goal of stabilizing agriculture, paying huge sums in government subsidies, in price support policies, and in export subsidies. In 1983, the United States spent \$21.8 billion on the subsidization of agricultural products, and Japan spent 619.5 billion yen just on grain subsidies. In 1980, EC countries spent a total of \$14.4 billion on subsidies, and during the last half of the 1960's, subsidies equaled approximately 55 percent of the gross output value of agriculture. For the United States, it was 38 percent, and for Japan approximately 51 percent. Without support from the governments of these countries, prices of agricultural products would have fluctuated freely with market supply and demand, in which case their actual value would have been much lower than the prevailing price.

China's situation differs from that of developed countries. Except for an extremely small number of items, the supply of agricultural products cannot meet demand. Despite several state increases in procurement prices of agricultural products under plan control during the past

several years, because of an inversion between procurement and marketing, the state has annually paid a subsidy of more than 20 billion RMB. During the past several years, prices of unfettered agricultural products have risen tremendously; nevertheless, income from an overwhelming majoring of agricultural products has tended to be low. Though for a majority of peasants calculation of the size of the rate of return on capital is currently out of the question, they truly feel that farming is not as profitable as working in industry, and much less profitable than doing business. Consequently, their enthusiasm for production is not high; specifically, their enthusiasm for growing grain is not high. Many reasons account for this problem, such as quite an increase in agricultural product procurement prices in recent years, but too rapid a rise in prices of the means of production, which has meant that the peasants have gained no tangible benefits. The extent to which agricultural product prices rise is limited by residents' purchasing power and national financial resources, so the rise has not been as high as it should have been. The production cycle is long. The cost-profit rate does not seem low, but the profit on capital is not high.

A common pattern seems to exist in the movement of agricultural product prices of the two different types of countries mentioned above, namely that prices of agricultural products cannot attain an average capital profit rate by relying on their own regulatory mechanism; only by relying on state intervention and subsidies is it possible to overcome their internal conflicts. Therefore, study of intervention and subsidization methods forms an important ingredient in the study of agricultural product prices.

Something that should be mentioned in passing is how we should regard Marx's differential land rent theory. According to Marx's differential land rent theory, poor conditions should be the basis for setting prices for agricultural products, i.e., production costs should not be the only basis for setting prices for agricultural products, but rather for agricultural products from fine or intermediate grade land, there should be a higher differential land rent, a "false social value" being paid by consumers. However, the reality we saw in the foregoing examination was just the opposite of this. Not only were countries that had a surplus of agricultural products unable to institute a "false social value," but even countries in which supply does not meet demand have not been able to attain the proper average profit rate. How can this be explained? It merits further study.

### III. Re-examination of the Pattern of Agricultural Produce Price Movements, and Selection of Control Actions

For some time, both theoreticians and practitioners have emphasized study of the correlation between agricultural product prices and value, and price ratio relationships between industrial and agricultural products. Doubtless, this has been a correct approach. However, lacking study

of agricultural product price movement patterns themselves in a planned commodity commodity, and consequently lacking necessary forecasting and ideational preparation about the situation that may occur following the removal of agricultural product price restrictions, there is a sense of helplessness when confronted with a situation of great ups and downs in prices.

During the initial period after restraints on agricultural product prices have been removed, some people regard the situation of "enlivening following removal of restraints, a rise in prices following enlivening, more products following a rise in prices; and a drop following more products" as a pattern of agricultural price movements, and regard it as an empirical "formula" for controlling agricultural product prices. People generally understand, as a result of several years practice, that such a generalization tells only part of the story. It may be accurate for certain products at a certain period of time, and in a certain area, but simplistic application of this "formula" to most agricultural products throughout the country seems inappropriate, and not in keeping with the realities of price movements in China in recent years. The fundamental reason why such a "formula" does not tell the whole story lies in the use of a general pattern of price movements to explain the movement of agricultural product prices to the exclusion of the special nature of agricultural product price movement patterns that we noted earlier. Formerly, we lacked deeper study in this regard, so we were not only not able to take correct actions, but sometimes we made a stormy sea even stormier by intensifying price fluctuations. Take Chinese medicinal herbs, for example, for which demand elasticity is very slight. When one is ill, he or she will pay a high price to buy them, but when one is not ill, they are of no use at all. All that is needed is to maintain a proper price, and maintain required supplies. However, some of our business units have used high prices to attract and stimulate producers to grow such herbs in large quantities. When supplies increase suddenly, they either buy them at rock bottom prices or have nothing at all to do with them. As a result, producers sustain severe losses. For rare and very valuable Chinese herbal medicines, this causes the destruction of resources, and killing the goose that lays the golden egg. Another example was the national hog surplus of the summer of 1986, when procurement prices plummeted below costs, and peasants poured out endless grievances, killed brood sows, and sold piglets at ultra-low prices. Regrettably, the state was unwilling to appropriate money at that time to support state-owned business units' procurement of hogs at a protection price for storage. Instead, the price was allowed to float free. It waited until matters reached an extreme and developed in an opposite direction, when there were fewer hogs and prices rose, they provided large subsidies, thereby locking the barn door after the horse was gone. In the writer's opinion, such actions are related to not handling matters according to agricultural product price movement patterns.

As a result of the repeated and tremendous fluctuations and rise in prices in agricultural production of the past several years, we realize there are three lessons that should be learned.

One is that insufficient efforts were put into production, and effective actions were not taken to support production. Efforts to use the enlivening of commodity circulation and to spur production were substituted for support to production itself, with the result that production lacked reserve strength; supply was inconsistent; and prices rose precipitously.

Second the lack of needed coordination, laws, and regulations when everyone was doing business in the commodity circulation realm created anarchy. As soon as a commodity in very great demand was found, everyone rushed to buy it, prices were jacked up, preemptive buying was done, and frequently the four groups concerned, namely business, supply and marketing, grain, and foreign trade units fought a large "civil war." Once large quantities of agricultural products were produced and sent to market on the basis of distorted price signals, these units had nothing more to do with them, and the onlooking peasants suffered economic losses.

Third is the over rapid expansion of consumption funds, the development of production being unable to keep up with procurement demand for which the ability to pay existed. In addition, readjustment of the production structure was unable to keep up with the stimulated high consumption demand. This resulted in an abnormal rise in prices for high quality agricultural products and agricultural products in the nature of small luxuries.

In view of the pattern of agricultural product price movements, we believe that it is necessary to rely on the role of the laws of value and national financial support in an effort to maintain a proper steady rise in prices of agricultural products whenever there are major ups and downs in the prices of specific agricultural products, the better to smooth out internal price ratio relationships among agricultural products and price ratio relationships between industrial and agricultural products, both in order to promote agricultural production and to raise the peasants' standard of living. A look at the country's current agricultural product price levels shows that a steady rise in prices of agricultural products will be unavoidable and entirely necessary. The state should promptly readjust all categories of agricultural product prices as needed and insofar as possible. However, sole reliance on price rises to solve agricultural product problems will not work. We cannot always dwell on price rises and subsidies alone; instead we have to adopt various responses of an overall nature.

A. Treat stable supply as a basic measure for stabilizing prices of agricultural products.

The understanding about agricultural product price movements gained from the above shows that agricultural product supply elasticity is complex, changeable, and inconsistent, but that consumption is relatively consistent by comparison. Therefore, development of agricultural production, and stabilization of the supply of agricultural products is a fundamental way in which to stabilize the prizes of agricultural products. Developed countries have had quite a few beneficial experiences in this regard that we might borrow. For example, when agricultural products are scarce, they apply uncompensated investment, provide the means of production at low prices, formulate higher procurement prices, provide price differential subsidies to producers, and reduce or waive taxes as means of stabilizing or increasing production. When large amounts of products are available, they use consistent production quotas, provide subsidies to those who take land out of cultivation, offer rewards for shifting production to other products, and subsidize exports as means of reducing supplies of marketable commodities, thereby insuring relative stability of market prices.

We cannot be accused of not having paid serious attention to similar measures in the past. Ever since the 1960's, we have maintained a guiding policy of taking agriculture as the foundation; however, frequently, only when agriculture was having difficulties did we truly devote serious attention to it. As soon as a turn for the better occurred, this idea faded. As an example, after our several years implementation of the contracting of farming produced bumper harvests for several years in a row, we relaxed our grip on agriculture. Specific actions to support production have been few, and there have been even fewer feasible concrete methods for guiding planned reductions in production; we allowed the laws of value to bring about regulation spontaneously. The result has been both a dampening of peasant enthusiasm and tremendous fluctuations in prices. When governmental financial levers have been used, it has been mostly to give more money to commodity circulation areas and to consumers, without using it directly for the benefit of producers. This is the reverse of what has been done in foreign countries, and one might say that it has been putting the cart before the horse. We believe the following several actions should be taken with regard to this problem.

1. Establishment of the concept of long-term support for agriculture. Long-term, planned government disbursements should be used to improve basic facilities in agriculture, and to improve the macroenvironment for agriculture, solid reserve strength thereby existing for the development of agriculture.

2. The state should disburse funds specifically for the purpose of lowering prices of the means of agricultural production to support the development of agriculture. Such methods would also help the state make use of fixed contract procurement to control major agricultural products.

3. Laws and regulations, as well as government financial actions, should be formulated to help farming on a large scale to support the building of various kinds of specialized production cooperatives.

4. Improvements should be made in providing information to guide production, with the prompt issuance of all kinds of information about market demand, everything possible be done to permit the peasants to organize their production under guidance of the laws of value, and in accordance with market demand to avoid working in the dark. An economic development model of "state controls the markets, and the market guides enterprise" should be formed.

B. Clear commodity circulation channels, and begin to establish a circulation system suited to China.

Rationalization of the circulation system holds importance for the stabilization of agricultural production and market prices. We have already gotten rid of the former undiversified circulation channels for the flow of agricultural products, and have formed a multichannel structure for handling agricultural products. However, the following several problems are conspicuous in the current circulation system. First is a lack of division of labor in each of the channels; second is failure to form separate systems for handling different products, and a lack of separate business methods and circulation routes; and third is too many intervening links, and too great a procurement and marketing price difference that results in producers not obtaining real benefit, and consumers being unable to bear the cost. Therefore, work to improve the commodity circulation realm is imperative, and consideration should be given to starting in the following ways:

1. Establish distinctive circulation systems on the basis of the natural attribute and the production and marketing characteristics of all types of agricultural products, separate collection and distribution channels and business systems being set up for grain, all kinds of cash crops, meats, dairy products, native specialties, aquatic products, and fruits. Retail units can handle all kinds of products, but wholesale units and supply and marketing units should be specialized insofar as possible. Thus, a specialized division of labor can be shaped to avoid "large scale warfare" in every market.

2. Encouragement should be given the peasants to set up product transportation and marketing cooperatives, or integrated agricultural, industrial, and commercial associations able to transport and sell agricultural products directly to wholesale markets in the marketing area so as to reduce the number of intervening links, the peasants thereby increasing their earnings, and consumers likewise having a lighter burden to bear. Existing rural supply and marketing cooperatives should also take active part rather than simply serve as middlemen.

3. Trial futures market system. For various products, the production of which is fairly risky, futures trading should be done at some large collection and distribution markets as a supplement to the state contract fixed procurement system. This would help stabilize both supply and prices.

4. Establishment of a state storage system, and setting up of an agricultural products market regulation fund. The state should have specialized agencies responsible for storing important agricultural products in order to even out surpluses and shortages and be prepared for contingencies. For ordinary products, a special regulatory fund should be established so that, when necessary, commercial units can be instructed to ship large quantities in order to hold down market prices.

C. Active development of agricultural products processing industries, and improvement of storage and shipping methods is also an important aspect of the stabilization of both agricultural products supply and prices.

In developed countries, agricultural production per se is just one link in the agricultural products production process. Among the three links of production services, production, and post-production processing, agricultural production per se adds only between 20 and 30 percent to the total value of agricultural products. Therefore, development of processing industries for agricultural products is not only an important way in which to increase the value of agricultural products and increase peasants' income, it is also an important way in which to insure stable supplies of agricultural products. Therefore, we advocate the development of agricultural product processing industries in rural villages. At the same time, improvement of storage and transportation methods should also not be neglected as agricultural production develops.

D. Price work itself also has to be consistent with the removal of restraints from agricultural produce markets, the strengthening of macroeconomic controls, and supervision and examination. It is necessary to resolutely insure full compliance with all product prices that the state sets. For products for which guidance prices have been set, specific guidance and supervision should be strengthened. Coordinated guidance should be organized with respect to products whose prices are to be regulated by the market to prevent procurement units from jacking up prices and engaging in preemptive buying, causing large rises and falls in prices. When price differences are too great in the agricultural products circulation process, control should be exercised so that neither producers nor consumers suffer losses.

Agriculture is an integral part of the national economy. Granted that the stable development of agriculture and stable prices have an extremely great influence on the development of the entire national economy, development of agriculture also depends on the coordinated development of all sectors of the national economy.

Therefore, we must pay attention to total balance in the entire economy, bring about a balance between government financial receipts and expenditures, control the issuance of currency, and promote the development of agriculture in concern, and insure the maintenance of price stability founded on a balance between supply and demand.

**Slowdown of Township Enterprises Suggested**  
*40060082 Beijing JINGJI RIBAO in Chinese*  
19 Oct 88 p 2

[Article by Yan Qialin 7051 0595 2651: "Give Serious Attention to the Problem of Competition for Funds Between Township and Town Enterprises and Agriculture"]

[Text] This happens to be the busy season for procurement of agricultural and sideline products, yet quite a few areas are scrambling to get emergency help for their serious shortage of procurement funds. In some areas, this situation has reached unimaginably serious proportions. During the past several years, encroachment on and diversion of agricultural funds for the development of township enterprises has become virtually commonplace, and in some places cadres even look upon these funds as "the secret of success." Nowadays, even funds intended for the procurement of agricultural and sideline products are being raided. At this rate, not only will the future reserve strength of agriculture be damaged, but it will be hard to get through the present. It seems that some thought should be given to whether it might be necessary to put a damper on the ultra high speed development of township enterprises.

Reportedly, a total of approximately one billion yuan is needed for procurement of the late harvest of agricultural and sideline products in Huaiyin City, the granary of northern Jiangsu, but agricultural banks in the city currently have only 20 million yuan in circulating funds. In southern Jiangsu as well, places such as Nantong, Yangzhou, and Yancheng prefectures have been hard hit by the shortage of procurement funds. In Hubei Province, the situation is even worse. Reportedly, except for funds needed to cover daily withdrawals, agricultural banks throughout the province had virtually no money during September for the procurement of agricultural and sideline products, or to provide support for the development of agricultural production. A payment of 150,000 yuan is now needed for cotton that has already been harvested in Yan County in Hubei, but only 20,000 has been paid in cash. IOUs have been issued to the peasants for the remaining 130,000 yuan.

The funds shortage is bound to have an adverse effect on the procurement of agricultural and sideline products. Estimates call for a cotton harvest of more than 10 million dan in Henan Province in 1988 for which 2.2 billion yuan of procurement funds will be needed before the end of the year. Since September, all jurisdictions have been sending new cotton to markets, and by the



middle of October more than 1.5 million dan of new cotton was in storage. However, as a result of the shortage of funds, most major growing areas have been unable to weigh it and pay for it right away. Agricultural and sideline products procurement is an extremely important task. Problems in this area will hurt not only market supplies but peasant enthusiasm as well, and will cast a shadow over future agricultural production.

We also reiterate once again that agriculture is the foundation for the national economy, and that agricultural production must be stable. We must also always be concerned when reserve strength for the development of agriculture is insufficient. Nowadays, however, some comrades—and particularly some leading cadres—relegate very real, very concrete, and even very critical work in agriculture to the sidelines. Attention should be focused on this practice.

Of course, a shortage of funds for agricultural and sideline products procurement has been found in only some areas, and the issuance of IOUs has also occurred in only a small number of counties and cities. Just what the situation is in other places awaits more complete information. In addition, one may be sure that places facing temporary difficulties are doing all possible to amass funds to insure availability for procurement, and the IOUs will also definitely be honored. Nevertheless, the lessons provided should be learned.

Actually, every jurisdiction has state-assigned loan quotas for the procurement of agricultural and sideline products. No matter how short funds may be, priority has always been given to money for the procurement of agricultural and sideline products. However, possibly it is because such funds have been too readily available and have been required only seasonally, plus the benefits to be derived from the development of township enterprises, and the difficulty in getting funds for such development that numerous areas have frequently turned attention to these funds. The pervasiveness of ideas that short change agriculture have also intensified the unbridled diversion of funds. Reportedly, all the county cotton companies in Suizhou City recently borrowed more than 3 million yuan from textile mills to solve their dire shortage of procurement funds, but no sooner had the drafts entered the local Bank of Agriculture than the funds were diverted to other purposes. Later on, even more than 5 million yuan in cash issued to the city by the provincial cotton company for the payment of excess prices was very quickly raided.

Undoubtedly township enterprises should be developed vigorously, and the fine experiences that some places have had in using industry to foster agriculture, and using industry to assist agriculture should be commended. However, it is also necessary to realize clearly that township enterprises competition with agriculture for funds, energy, and raw and processed materials in some areas is becoming increasingly severe. The instances in which industry encroaches upon agriculture

and raids agriculture are not in the minority either. Since funds must be invested in order to expand reproduction, when faced with the tightening of credit in the country of the past several years, township enterprises have been able to maintain a high speed development at between 20 and 30 percent largely by encroaching on and diverting funds intended for agriculture.

This is not all. The ultra high speed development of township enterprises has also led, to a certain extent, to an inflation of credit and the issuance of too much currency. The following situation has occurred almost every year during the past several years in many places—after agricultural funds have been diverted, no money is available for grain procurement, the repair of irrigation ditches, or the purchase of the means of production. The state is forced to seek large loans as a result. But the consequences of credit inflation and issuance of more currency must be known to all.

Both funds used for agriculture, and funds used by township enterprises come from the Bank of Agriculture. Though the banking system is supposed to be relatively independent, it is frequently subject to very much local government interference at all levels. Therefore, in order to insure availability of funds for the procurement of agricultural and sideline products, the Bank of Agriculture will have to exercise greater control and institute a rigorous credit system; and local governments will have to curtail their interference. This is one aspect of the matter.

Another aspect is that though there are many behind the scenes reasons for the emergency about funds for the procurement of agricultural and sideline products, objectively speaking, the problem stems from the ultra high speed development of township enterprises. Support for the development of township enterprises at the cost of sacrificing agriculture or credit inflation will land the national economy in a predicament. Therefore, straightening out the correlation between the development of agriculture and the development of township enterprises, and genuinely insuring the steady development of agricultural production in every way is of crucial importance. For the present, the key lies in putting a damper on the ultra high speed development of township enterprises.

**Agricultural Projects Flourishing in Northwest**  
*OW3010211088 Beijing XINHUA in English*  
1532 GMT 30 Oct 88

[Text] Xian, October 30 (XINHUA)—Several key agricultural projects are in full swing in northwest China, aiming to improve farming conditions and boost grain output in the region.

The agricultural development in many parts of the region is still restricted by the backward production conditions and about 10 million people are troubled with food and clothing problems.



In recent years, governments at various levels have invested about three billion yuan in six major water conservancy projects in Shaanxi, Gansu and Qinghai provinces as well as Xinjiang Uygur and Ningxia Hui autonomous regions.

The projects, to be completed before 1993, will bring some 330,000 hectares of farmland under irrigation.

With aids from the state, a number of commodity grain bases are under construction in Shaanxi and Gansu provinces as well as Xinjiang Uygur Autonomous Region.

This year the State Council has approved the construction of cotton and sugar bases in Xinjiang.

In a decade, 530,000 hectares of waste land in the area will be reclaimed and another 530,000 hectares of low-yield land will be transformed for cotton and beet production, which will be the largest bases in northwest China.

#### **Anhui Peasant Income**

40060142a Hefei ANHUI RIBAO in Chinese  
10 Nov 88 p 2

[Summary] From January to September, per capita cash income of rural households in Anhui Province was 345.22 yuan (excluding income from savings and loans) a 21.93 percent increase over the same period in 1987. However, the actual increase was 4.15 percent after deducting price increases. From January to September, per capita income earned from farm product sales was 221.62 yuan, a 17.01 percent increase over the same period in 1987; on average peasants spent 10.37 yuan on farm production materials. Per capita income earned from secondary industries was 13.89 yuan, a 62.46 percent increase over the same period in 1987. The proportion of peasant income earned from secondary industries increased from 3.56 percent in 1987 to 4.78 percent. Per capita income earned from tertiary industries was 54.85 yuan, a 30.22 percent increase over the same period in 1987.

#### **Deforestation, Soil Erosion in Hebei**

OW2910080488 Beijing XINHUA in English  
0244 GMT 29 Oct 88

[Text] Beijing, October 29 (XINHUA)—Deforestation and soil erosion are adding to the already arid conditions in Hebei Province, today's PEOPLE'S DAILY reported.

Although tree-planting is carried out each year, the survival rate is only 32 percent. Denudation has reduced most mountains or hills in the province to barren areas. In part of the plain, only five percent is wooded, the paper said.

About half of the grasslands, or two million hectares, are degenerating.

Soil erosion is also serious, the paper said. Forty percent of the land, or 78,400 sq km, is being eroded. The dyke of Miaogong Reservoir, for example, used to be 44.2 meters high, but now it is only 19 meters. The water reserve capacity has gone down by 57 percent.

Most of the province's 37 large rivers have dried up. Because of excessive pumping, the underground water level in Shijiazhuang, the capital of the province, dropped to 35.16 meters deep in 1987 from 7.82 meters in 1965.

The underground water level has also dropped in other cities in the province, the paper wrote.

#### **Hebei Grain Harvest**

OW1210110088 Beijing XINHUA in English  
1600 GMT 11 Oct 88

[Text] North China's Hebei Province is expected to harvest 20 million tons of grain this year, which will be a record.

#### **Hebei Rice Area**

40060135b Shijiazhuang HEBEI RIBAO in Chinese  
28 Oct 88 p 1

[Excerpt] [passage omitted] The area sown to rice in Hebei Province this year was over 2.5 million mu. The per unit area yield has increased from 381.5 kilograms in 1980 to 411 kilograms in 1987, and is expected to reach 425 kilograms in 1988. [passage omitted]

#### **Hebei Wheat Area**

40060135a Shijiazhuang HEBEI RIBAO in Chinese  
23 Oct 88 p 1

[Excerpt] As of 21 October, Hebei Province had sown 35,670,000 mu to wheat, an increase of 2 million mu over the same period in 1987. [passage omitted]

#### **Loans From World Bank Provide Aid for Heilongjiang Projects**

HK1410122188 Beijing CEI Database  
in English 14 Oct 88

[Text] Beijing (CEI)—China made full use of the World Bank loans on a reclamation item in the Heilongjiang reclamation area, turning 200,000 hectares of barren land into fertile farmland after five years' efforts and obtaining remarkable economic results.

Experts from the Ministry of Agriculture recently checked and assessed the reclamation project, concluding that various construction items met the standards set in the evaluation report of the World Bank.

According to an official of the ministry, the farmland after reclamation produced 600,000 tons of grain in five years, in which commodity grain accounted for 37 percent and exported soyabean earned 27 million U.S. dollars.

Irrigation projects form an important part of the reclamation work. In the five year period, 850 kilometers of irrigation canals were dug and 200 kilometers of flood-prevention dikes constructed, effectively strengthening the area's capability against natural disasters.

Besides, 19 pumping stations were constructed, 257 bridges were built and 780 kilometers of main roads were completed.

The reclamation item, the country's second agricultural development project built by using World Bank loans, was carried out with a loan of 70 million U.S. dollars and domestic supporting funds of 260 million yuan in rmb [renminbi]. 2,000 sets of agricultural and irrigation equipment were imported from Japan, and the U.S., making production in this new reclamation area completely mechanized.

#### **Jiangsu Hog Output**

40060084e Nanjing XINHUA RIBAO in Chinese  
27 Oct 88 p 2

[Excerpt] [passage omitted] At the end of September, Jiangsu Province had 18,004,100 hogs in stock, a 1.2 percent increase over the same period in 1987. [passage omitted] From January to September, although the number of hogs removed from inventory declined 970,000 from the same period in 1987, the number of large hogs removed increased, on average pork output from each hog increased 5.8 kilograms. Pork output was 824,100 tons, a 1.6 percent increase over the same period in 1987. [passage omitted]

#### **Jiangsu Silk Exports Up**

HK0710105388 Beijing CEI Database in English  
7 Oct 88

[Text] Nanjing (CEI)—The export of silk products in Jiangsu Province reached 265 million U.S. dollars this year, up 7.5 percent over last year.

The increase is due to high quality, rich assortments and prompt delivery of products. A lot of foreign firms are willing to order Jiangsu's silk products.

The province is China's main production base for cocoon and silk. The export volume of its silk products in 1987 accounts for 23 percent of the country's total.

#### **Jiangxi Citrus Sales**

40060135c Nanchang JIANGXI RIBAO in Chinese  
17 Oct 88 p 1

[Excerpt] According to a survey of 13 major citrus fruit producing counties and cities in Jiangxi Province, in 1988 citrus fruit sales outside Jiangxi will account for 62.4 percent of total sales, a four percent increase over 1987. [passage omitted] Hong Kong, Beijing, Hunan, Anhui and three northeastern provinces have signed purchasing contracts. Nanchang County has signed a trade contract with the Soviet Union for 50 tons of citrus fruit.

#### **Jiangxi Winter Sowing**

40060135d Nanchang JIANGXI RIBAO in Chinese  
23 Oct 88 p 1

[Excerpt] [passage omitted] As of 21 October, Jiangxi Province had sown 18.8 million mu to winter crops, accounting for 72.7 percent of the planned area. Of this amount, the area sown to green manure crops was 12.2 million mu, accounting for 76 percent of the planned area, and the rape area was 4.13 million mu, accounting for 69 percent of the area. [passage omitted]

#### **Hog Raising Picks Up in Liaoning**

40060096b Beijing JINGJI CANKAO in Chinese  
7 Oct 88 p 2

[Article by Shi Xuan 4258 6513: "Continued Rally in Liaoning Hog Production, Need for Transmission of Accurate Market Information and Encouragement to Peasants To Replenish Inventories"]

[Text] A survey done in late August by the Liaoning Provincial Food Company shows peasant sentiment for raising hogs to be running high everywhere in Liaoning at the present time. Hog production has continued to rally, and a trend toward expansion has appeared.

Extrapolation of survey data from 19 contiguous counties where representative sampling was done showed a total of 9.36 million hogs in inventory throughout the province as of the end of August, up 6.5 percent over the same period in 1987. This included 719,000 brood sows, up 34.6 percent, and 157,000 sows that had not yet reached breeding age, a 190 percent increase. Boars and sows accounted for 7.92 percent of the total in inventory, higher than the 6.9 percent of the same period in 1987. Shoats numbered 1,823,000 head, up 47 percent. Fattened hogs weighing more than 65.5 kilograms numbered 2,606,000 head, up 14.8 percent, and the number weighing less than 65 kilograms was 4.01 million head, down 14.1 percent. Authorities concerned predict that the total number of hogs in inventory in 1989 may reach the number in inventory before the decline at the end of May 1986.

Analysis shows several main reasons for the revival and fairly rapid expansion of hog production in Liaoning Province. First is the continued upward drift of hog procurement prices for an increased return from raising hogs that has stimulated peasant enthusiasm for hog raising. During 1988, hog procurement prices rose every month. From January through July, the average procurement price for the province stood at 1.41 yuan per 500 grams versus 0.95 yuan for the same period in 1987, a 48.4 percent increase. Second, governments at all levels are paying serious attention to the adoption of various support policies and actions, providing active support to specialized households, in particular, which spurs an expansion of hog production. Survey statistics from departments concerned show an increase in the number of households specializing in the raising of hogs throughout the province from 19,669 households at the beginning of 1988 to 32,325 households as of the end of June 1988, a 64.3 percent increase. Third is a fairly rapid increase in the number of sows, insuring a source for expansion of hog raising. The quality of sows in inventory is also rather good, approximately 40 percent of them being between 1 and 2 years old, and approximately 50 percent being between 3 and 5 years old. Only approximately 10 percent are sows older than 5 years. Fourth is the existence of a fairly good material foundation for hog raising. Except for a small number of calamity-stricken areas, a bumper harvest is in prospect in principal grain growing areas, and peasant enthusiasm for hog raising is running very high.

One problem currently deserving of attention is that as a result of the effect of price rises for some commodities, some rural hog raising households feel it is "better to keep hogs rather than sell them," and "the sale of hogs will mean losses." Hogs are being held back for a better price everywhere, and hogs that have to be removed from inventory are not being removed promptly. This has hurt prompt replacement of inventories with shoats. An August survey shows that though the number of large hogs weighing more than 65.5 kilograms has increased, the number below 65 kilograms has decreased. This decrease in the number of small hogs and failure to replenish inventories will have an adverse effect on future normal expansion of production. Simultaneous with support for hog production, the authorities concerned should disseminate accurate market information to the peasants to bring about a normal expansion of hog production. Second, in response to the development of hog production in the direction of specialization, commercialization, and scientificity, authorities concerned should increase service functions by building production, scientific research, livestock fodder, funds, and material supply service systems, with the emphasis on developing pre-production, production, and post-production services for hog raising.

#### **Major Effort To Boost Shaanxi Agricultural Output**

OW2810130688 Beijing XINHUA in English  
0855 GMT 27 Oct 88

[Text] Beijing, October 27 (XINHUA)—Some 3,500 agricultural scientists and technicians from 10 agricultural colleges and research institutions in Yangling

Town, Shaanxi Province, will join hands to help develop the Weibei Plain, the PEOPLE'S DAILY reported today.

Known as an arid area, the Weibei Plain includes 23 counties with about 933,000 hectares of cultivated land.

After investigations and feasibility studies lasting five months, local experts tendered a draft plan to the provincial government, aiming to contract the technological development of the area.

They suggest a five-year contract, within which they hope to achieve an increase in agricultural value of about 748 million yuan, and at the same time double the per capita income in the area.

Through scientific and technological development over the next five years, the grain output per hectare will rise by 23 percent, edible oil by 30 percent, tobacco by 36 percent, fruit by 20 percent and animal husbandry by 15.8 percent.

The plan has been approved by the provincial government, which will invest five million yuan each year in the program.

#### **Shandong Farm Commodity Bases**

40060135e Beijing RENMIN RIBAO in Chinese  
26 Nov 88 p 2

[Excerpts] Over the past four years Shandong Province has invested over 400 million yuan to set up 184 farm commodity production bases. [passage omitted] Shandong has set up 66 grain bases, 16 cotton bases, 39 farm and sideline product export bases, 24 livestock bases, and fruit, vegetable and peanut bases. Shandong has used 43 percent of the total investment on irrigation projects to upgrade low-yield farmland, and has expanded the irrigated area by 1,886,000 mu. This year, estimated output from the grain bases is 15.55 billion kilograms, and cotton output is estimated at 9,710,000 dan. [passage omitted]

#### **Shanghai Vegetable Exports**

OW1610105488 Beijing XINHUA in English  
1506 GMT 14 Oct 88

[Text] Shanghai exported 16,000 tons of fresh, instant-frozen and dehydrated vegetables to over 20 countries in the first nine months of this year and earned 70 million U.S. dollars.

#### **Shanxi Agricultural Investment**

40060084c Beijing JINGJI RIBAO in Chinese  
26 Nov 88 p 1

[Excerpts] [Passage omitted] Financial departments at the provincial, prefecture and county level in Shanxi Province invested 44.8 million yuan in agriculture this year, and funds from the town and village level were 163 million yuan. [Passage omitted] Loans from agricultural banks and credit cooperatives totaled 880 million yuan, an increase of 110 million yuan over the beginning of 1988. [Passage omitted] In addition, the province provided \$6 million to import 5,400 tons of raw material for plastic film.

**Sichuan Tea Exports**

40060084f Chengdu SICHUAN RIBAO in Chinese  
29 Oct 88 p 2

[Summary] In August, Sichuan Province sold \$570,000 worth of tea at an exhibit in New York City. In 1989 estimated tea exports from Sichuan to the US will be about 1,000 tons, an increase of about 80 percent over 1988.

**Sichuan Water Storage**

40060084d Chengdu SICHUAN RIBAO in Chinese  
24 Oct 88 p 2

[Excerpt] [passage omitted] At the end of September, water conservancy projects in Sichuan Province held 8.36 billion cubic meters of water, an increase of 64,790,000 cubic meters over the same period in 1987. [passage omitted].

**Joint Forum Discusses 'Emancipation of Man'**  
*HK0711033788 Shanghai SHIJIE JINGJI DAOBAO  
in Chinese 31 Oct 88 p 1*

[Dispatch from Beijing: "Joint Forum Held in Beijing on the Emancipation of Man"]

[Text] "Differing from the discussion of humanism [ren dao zhu yi 0086 6670 0031 5030] a few years ago, today's discussion on the emancipation of man, in essence, is the theoretical preparation for a new round of reform."

At the symposium on "the emancipation of man and social development" jointly held by QIUSHI, SHIJIE JINGJI DAOBAO, and the Sitong Social Development Research Institute, RENMIN RIBAO commentator Wu Guoguang made the above appraisal.

In the past nearly 100 years, although many rounds of reform have been carried out in China, none of them has been successful. A major reason is that they have all been aimed at regenerating China as a whole nation, and have neglected the emancipation of man, a fundamental driving force for social civilization and progress. The reforms did not transcend the notions of "state values" and "national values." If we now intend to further deepen the reforms, we must proceed from "individual values" and "civil rights values" to transform and improve the whole social apparatus. That is, we must restore the basic position of humanism in our social values. Only thus can we integrate the regeneration of China with the emancipation of man. This is also the only way we can take to free ourselves from the predicament.

Reform will not be plain sailing. The appearance of various problems and difficulties and even the appearance of the current economic crisis are quite natural. We do not need to make excessive promises to gloss over the problems. Instead, we should adhere to a materialist and realistic attitude and scientifically sum up both positive and negative experiences. Otherwise, we will undergo another round of the old historical cycle. In this sense, the scholars have pointed out that China's social development lacks a profound foundation of liberalism. Therefore, if we want to further advance reform, we must make a qualitative change in guiding ideology and values.

At the meeting, the experts extensively discussed the significance of the emancipation of man, the social and historical conditions for the emancipation of man, the relationships between people's mental emancipation and the emancipation of man and between human rights and the emancipation of man, man's role in the development of productive forces and in social development, the improvement of the quality of man, and the issue of humanism and alienation. They also praised highly the sponsoring units' arranging of such a symposium at this time.

Those attending the discussion meeting included Zhu Houze, Xue Dezhen, Hu Deping, Bao Zunxin, Dai Qing, Wu Jiaxiang, Cao Siyuan, Zhang Zonghou, Huang Wansheng, Zheng Yefu, Ding Ningning, Wang Yizhou, Wang Juntao, Li Lianke, Hong Xiaoyuan, Yuan Zhiming, Mai Tianshu, Zhou Xiaozheng, Luo Diandian, Rong Jian, Zhang Kai, Pang Zhengyuan, Wang Xiaodong, Chen Xiaoping, and other experts and scholars, totaling nearly 60 people.

**Problems, Challenges Relating to Overseas Students**

**Children of Senior Officials**

*40050048a Shanghai SHIJIE JINGJI DAOBAO  
[WORLD ECONOMIC HERALD] in Chinese  
26 Sep 88 p 15*

[Article by Song Yajie 1345 7161 2638: "Make Better Use of Overseas Students Associations"]

[Text] Undeniably the management of overseas students has become more difficult over the past few years. This has something to do with the policy errors of the State Education Commission and interference from the right wing. Besides, Chinese overseas students associations in the U.S. are mostly made up of students, certainly not full-time political elements, and as such are no match for the right wing in terms of the amount of time, energy, and funds they can devote to managing overseas students. This is another problem in overseas students management at the moment.

One other point cannot be ignored if we are to manage overseas students successfully: strengthening the management of the children of senior officials. Take Yale University, where I am studying, for instance. Some of the children of senior officials here are doing very well. Unfortunately, this is not true for everybody. Because of their special status, these students attract a lot of attention and have a significant impact on other overseas students. Yet it is exactly their management that is particularly weak at present. Many of them are the first to seek to have their status altered in order to be able to reside in the U.S. permanently. These people bring no academic credit to the Chinese, but take the lead in engaging in dishonest practices. Many well-known dissidents too have parents who are senior officials. According to Qin Jian [4440 1017], an overseas student at the University of Southern California, an official met with his daughter studying in the U.S. during his official trip to Los Angeles not long ago. When she told him she planned to return to China soon, he said to her in front of everybody, "What is the rush? It is so nice staying here." Overseas students from Philadelphia also told of a worker at the Chinese consulate in New York who had this to say when informed of the latest trip home by overseas students. "A waste of money and manpower! It would be more effective to send several of the children of senior officials home."

Let us again take Yale as an example. Many overseas students cannot bring their spouses and children over here. Yet a visiting female scholar from Shanxi managed to get her husband and child to join her in the U.S. Under current policies, visiting scholars cannot bring their family members with them. In these circumstances, how can we expect the overwhelming majority of overseas students who have no high officials in their families to understand the existing management policies?

It follows that one issue to be seriously considered in the development of overseas student management in the future is how to make use of overseas students associations as social organizations to unite all overseas students, how to reinforce the educational units in overseas embassies, and how to draw up suitable policies that accord with reality.

### **'Unjustifiable' Regulations**

40050048b Shanghai SHIJIE JINGJI DAOBAO  
[WORLD ECONOMIC HERALD] in Chinese  
26 Sep 88 p 15

[Article by Qin Jian 4440 1017: "Restrictions on Overseas Students No Way To End Brain Drain"]

[Text] Since China was opened up to the outside world in 1979, the government has consistently made overseas students' work a priority. Under the direction of the State Education Commission, a string of detailed policies and measures has been unveiled in the past two years. The overwhelming majority of overseas students argue that many of the new regulations are unjustifiable and that people who made them have not acted pragmatically or proceeded from an analysis of the actual circumstances. It would be counterproductive to implement the policies and regulations.

1. Existing regulations limit the number and ratio of students sent by the state for further studies overseas at public expense. As for studying abroad at one's own expense, that has practically been disallowed. It is both necessary and reasonable for the government to plan properly for the dispatch of students overseas at public expense, particularly in the case of certain much-needed disciplines. What is not justifiable is limiting the number and ratio of students sent abroad by the government, particularly those who pay their own way. The result is that we lose the opportunity to train a good number of qualified personnel.

2. Government regulations impose restrictions on postdoctoral research overseas. In many disciplines postdoctoral research is imperative. At present, the conditions at home are relatively inadequate. It will only do China good for an overseas student to make use of the existing research climate abroad to come up with some research achievements in a shorter period of time. It will also be extremely beneficial to the individual after he returns to China to work.

3. Existing limitations on the period of overseas study are too rigid and too short. In the U.S., because of the credit system, the amount of time that must pass from enrollment to graduation depends on many factors, such as the university, department, specialty, financial aid, and the student's supervisor. Thus American universities at most impose a maximum time limit. (The Department of Electrical Engineering at the University of Southern California, for example, requires all Ph.D. candidates to complete their studies within 10 years.) It is not realistic to limit the number of years an overseas student can stay in the U.S. rigidly across the board.

4. About family visits and the practice of allowing husband and wife to study together. Since a student usually stays overseas for a rather long period of time, (generally it takes over 5 years to obtain a doctoral degree) the demand by family members or the spouse to join him or her is both normal and legitimate. Clearly, restricting reunion between a student and his spouse would not be endorsed by either Marxist humanism or Chinese socialist ethics.

It has been said that the formulation and implementation of the current overseas students policies resulted from official concern and efforts to check the "brain drain." From what we know, Chinese overseas students in the world amount to nearly 50,000 or 60,000, a tiny number compared to the total number of undergraduates and graduate students (about 2 million) within China. The government has every reason to believe that the bulk of overseas students are patriotic and eager to dedicate themselves to serving the country. Accordingly, we must not think that the "brain drain" has gotten so serious that there is no alternative but to resort to restricting the number of students going abroad, the duration of overseas stay, and visits abroad by family members. To do so would heighten the sense of insecurity among the majority of overseas students, making them feel uneasy and undermining their enthusiasm. The result is that they will distrust or feel let down by government policies. In addition, these policies will also be seized upon by a handful of anti-Chinese elements in the world as an excuse to attack China. In short, current overseas students policies should not be continued no matter how we look at them.

We also think that the heart of the problems surrounding overseas students can be found in China. A true "brain drain" occurs only when the scientific and technological system at home remains unreformed, when the working conditions and pay of Chinese intellectuals are not improved substantially, and when no genuine effort is made to resolve the widespread "waste of talent" within China. We firmly support the argument by Qian Jiaju [0578 1367 7467], Ding Shisun [0002 4258 1327], and other deputies to the National People's Congress and members of the State Education Commission that comprehensive educational reform and increasing educational investment have become burning issues.

### 'National Self-Confidence' Urged

**Taking a More Relaxed View Toward Brain Drain**  
40050048c Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
26 Sep 88 p 15

[Article by Zhang Weiguo 1728 0251 0948: "Democratization in China Is The Best Way To Attract Overseas Students"]

[Text] At the invitation of the State Education Commission, 49 students who had been studying in various countries formed a visiting and reporting delegation and spent 20 days on a study mission all over the country.

Wherever they went, the overseas students visiting and reporting naturally were most concerned about their job assignments upon returning home in future. Their general impression, however, was that there is not much of a demand for overseas students at the local level and in production departments; what is most sought-after in many localities are merely graduates of technical secondary schools. The overseas students were very interested in the total establishment and payroll contracting currently under way and in moves by educational and scientific research institutions to appraise positions in accordance with a certain ratio. As they see it, almost all Taiwan and South Korean overseas students are the "airborne troops" for modernization and are put to work as soon as they go home. If China continues to regard and use overseas students as "screws," it will unavoidably keep out many of the best and brightest and dash the hopes of overseas students to take part in all aspects of modernization in China.

Some group members told reporters, "Which would you prefer, 50 useful returned students or 100 useless students?" The rigid management of the old planning system still prevails in this day and age: If such and such a number of students go overseas, such and such a number must return. We should realize that "what we need is highly skilled personnel, not ordinary people." Apparently the problem here is one of rethinking. Overseas students also said, "It was no accident that modern science and technology was born in the West and not in China. There was an inevitability to that." Under the old system, policy-makers always object to the people for whom they made policies. Hence there was a tendency to emphasize crude and simple administrative devices such as "control, restraint, and suppression." Like the person who tries to cut off the flow of water using a knife, we only end up driving away those who originally wanted to stay. According to the overseas students, the main problem is that policy-makers lack a national self-confidence and try to appease some jealous backward individuals in the nation. The key to success in the current reform and modernization in China is to jettison such thinking and inculcate a sense of personal individuality. Each person is an independent individual with his own inalienable rights. No longer is he the appendage of the state, a political party, or society.

Most people on the study mission are overseas student leaders, many of them chairmen of the overseas students associations of their universities. Owing to the above differences of opinion, they believe they will have a hard time establishing a dialogue with people who make overseas students policies upon their return. Realizing that the cream of the crop represents China's future, they explained, the Taiwan authorities had sent people to solicit extensively the opinions of students from the mainland on the reunification of the two sides of the strait. In contrast, people in China who make policies for overseas students have no idea what the students are thinking. Hence this typical feeling among overseas students: "They call us the pillar of society, but god knows who wants us when we come back."

"Once a Chinese, always a Chinese. A Chinese is a Chinese wherever he goes." This is how overseas students feel in their heart of hearts. It also should be the premise of policy-makers. Besides reflecting a lack of self-confidence on the part of policy-makers, any measures to tighten or restrain overseas students are based on two absurd assumptions, that China has no appeal to overseas students, whose return must therefore be ensured with ironclad management, and that despite all that they have learned, the best and the brightest still cannot judge for themselves whether or not to return to China and need somebody to "think" for them.

The "brain drain" involving overseas students is an objective process. Everything has its pros and cons. When some of the best minds remain overseas instead of rushing home to meet the urgent needs of China's four modernizations, it is clear what the problem is. In the long haul, however, the disadvantage is far outweighed by the benefits of using the developed nations in the West as an incubator and reservoir of qualified personnel for China. In the 1950's and 1960's, 90 percent of Taiwan students who studied in the U.S. remained in that country. After the 1970's, most of them returned to or invested in Taiwan, contributing enormously to Taiwan's economic takeoff. Because scientific and technical education in China remains fairly backward, it has been historically inevitable, as Qian Xuesen [6929 1331 2773] said, for some students to linger overseas instead of coming home. Given the present circumstances, if everybody comes home, many people are bound to end up in jobs that do not make use of what they have learned. Not only will they be unable to improve themselves, but they will also deprive somebody else of a job. In fact the state may not be able to find work for them at all.

Overseas students pointed out that the key to attracting overseas students to come home is to push through with political structural reform as soon as possible and establish an enlightened political system so as to provide overseas students with an arena where they can put their talents to good use. They also noted that as democratization continues, policies should give way to law as far as the question of overseas students or, for that matter, many other domestic and foreign-policy issues, are concerned. Legislation should be increasingly detailed. The rule of law should replace the rule of man.

**'New Readjustment,' Prospects for Foreign Trade**  
40060070 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 41, 10 Oct 88 pp 17-18

[Article by Jiang Lingzhi 1203 3781 5347: "The New Adjustment of Taiwan's Trade and Its Prospects"]

[Text] In the first half of this year, the Board of Foreign Trade under Taiwan's Ministry of Economic Affairs, acting in accordance with the spirit of the new trade policy, formulated a "Five Year Plan for Decentralizing the Market and Balancing Trade." This is a plan containing midterm trade development targets which was drawn up following the formulation last year of the "Foreign Trade Balanced Development Program."

#### The Policy of "Export Expansion" Is Faced With a Challenge

For the past 40 years, Taiwan's foreign trade has developed rapidly. Particularly since the 1960's, Taiwan has taken advantage of favorable opportunities offered by changes in the international industrial structure and rapid expansion of trade, and has adopted the development strategy of "export orientation"; it has also implemented timely trade system reform, allowing the average annual economic growth rate for the 1960's and 1970's to reach 9.6 percent and 9.5 percent respectively, and in this, trade has come to play the role of "mainstay" of economic growth. Trade has not only pushed forward and "pulled along" the rapid growth of the economy; it has also promoted improvement of the economic structure, increased foreign exchange revenue and improved the international balance of payments, and created a large number of employment opportunities, among other things.

However, following the two oil crises, the strengthening of Taiwan's foreign trade visibly slowed down; especially since entering the 1980's, changes in the domestic and foreign economic climate have confronted Taiwan's policy of "export expansion" with a challenge, and an unstable situation has emerged with respect to trade growth. Primarily:

- Pressure from U.S. trade protectionism has increased daily. Particularly in the past few years, since Taiwan's trade surplus has continued to grow, U.S.-Taiwan trade friction has increasingly intensified, and the U.S. has adopted several restrictive measures against Taiwan. For example, it has forced up the value of the New Taiwan Dollar, demanded that Taiwan implement "reverse market opening" and reduce tariffs, and beginning next year will abolish preferential tariff treatment for the "four Asian NICs." It has also demanded that Taiwan implement "voluntary export restrictions." In addition to controlling Taiwan's import quota, the U.S. has also demanded "voluntary restraints" on Taiwan's high tech product exports to the U.S. This will cause

difficulties for Taiwan's plan of promoting exports through scientific and technical upgrading.

- Competition from developing nations and regions is becoming increasingly fierce, particularly competition among the four Asian NICs. These nations and regions are striving to win a showdown through industrial policy and industrial structural adjustment. South Korea is dominant in heavy industry, chemical industry, and some high tech industries, and its currency is more stable than the New Taiwan Dollar, giving South Korea an advantageous competitive position, and this has created a sense of urgency in Taiwan. Next are such Southeast Asian nations as Thailand and the Philippines, which, relying on the advantage of their cheap labor force, have already surpassed Taiwan in export competitiveness of certain labor-intensive products.
- Domestic industrial structural adjustment is slow. Since the end of the 1970's Taiwan has been attempting to accelerate industrial structural adjustment, upgrade products, and raise their value-added rate, in order to adapt to the rise in wages and costs following the oil crises, and increase their competitiveness against other nations. However, due to such factors as the continued decline of investment interest, its progress has been slow. In 1987, Taiwan's savings rate was 39.86 percent, the highest rate up to now, while the investment rate was only 19.15 percent, or about half the savings rate. It is difficult for surplus social capital to form investment capital stock, and this will fundamentally hinder adjustment of the industrial structure. In the same year, the export value of electronics and data communications products belonging to information processing industries occupied the leading position, reaching \$10.6 billion, but this accounted for only 19.8 percent of exports, and moreover, this included a considerable quantity of low value-added consumer goods. Slow industrial structural adjustment leads to a decline in competitiveness, and this is the basic obstacle to the policy of "export expansion" based on technology-intensive products implemented by Taiwan.

#### The New Policy of "Balanced Trade"

Confronted with this grim situation, Taiwan's authorities feel deeply that it would be very difficult to continue to carry out the original "export expansion" policy. At the same time, Taiwan's authorities also recognize that the trade policy of "export expansion" constitutes a serious obstacle to the overall economic policy of "liberalization and internationalization" established in recent years. First, the reverse side of putting undue emphasis on exports is a corresponding restriction of imports. Such a trade policy of one-way expansion, consisting of developing exports and protecting against imports, has to a certain degree blocked the introduction



of an external market mechanism, allowing certain backward industries and products to survive under conditions of incomplete competition. Secondly, the trade policy has encouraged the trend of enterprises pursuing export profits alone. Factories are unwilling to abandon traditional products as long as there is a market for them and are unwilling to invest in research and development and high technology, which will undoubtedly have a serious adverse effect on industrial upgrading. In addition, because of Taiwan's high degree of dependence on the U.S. market, export expansion will inevitably lead to increasingly severe trade friction between Taiwan and the U.S.

Taiwan has learned from experience that carrying out the economic policy of "liberalization and internationalization" at the present time can break through the "bottleneck" of economic development only if trade policy is in accord with it. Therefore, following the adoption in 1987 of a series of "liberalization" measures, such as the abolition of foreign exchange control and the conversion from an import "permit system" to a "declaration system," a new policy of "balanced trade" was clearly put forth; namely, "exports first" was changed to "laying equal stress on imports and exports." Trade should shift from "pursuing rapid growth of export volume" to "maintaining a proper degree of growth." This shows that Taiwan's second major policy adjustment in the past 40 years has already emerged.

The core of Taiwan's trade policy adjustment is the implementation of "trade liberalization," and the focal points of its implementation include two major areas: decentralization of the export market and opening of the domestic market. Its basic goals are overseas, to reduce Taiwan's dependence on the U.S. market and ease the pressure of U.S. trade protectionism; domestically, by opening the market, to foster enterprises' competition mechanism and prod enterprises to step up improvement of the industrial structure, based on the new situation of the international division of labor and the principle of comparative advantage, so that the economy can further develop and gather strength.

In addition, Taiwan has also adopted various measures to actively introduce advanced technology and encourage overseas investment, among other things; stepped up adjustment of the domestic industrial structure, in order to improve its competitiveness overseas; and urged the implementation of the "balanced trade" policy.

#### **Five Year Plan for Decentralizing the Market and Balancing Trade**

In order to speed up implementation of the "balanced trade" policy, Taiwan's authorities have formulated a "Five Year Plan For Decentralizing the Market and Balancing Trade." According to this plan, by 1992, Taiwan's total trade volume will exceed \$200 billion and occupy tenth place in the world; the trade surplus will drop from last year's figure of \$10.9 billion to below \$5

billion; and the proportion of the Taiwan export market accounted for by the U.S. market will drop from the current 44 percent to under one-third, with the gap being filled by Japan, Europe, and Southeast Asia.

The above-stated plan is undoubtedly an ideal plan. However, Taiwan's authorities understand clearly that the key to whether the various targets can be achieved is whether the strategy of market decentralization can be realized. For this very reason, Taiwan's authorities have adopted a series of specific plans and measures to promote the implementation of the policy of "market decentralization." For instance, Chen Lian [7115 1462 1344], the new Minister of Economic Affairs, put forth a "Plan for Strengthening Foreign Economy and Trade," stressing the need to increase the introduction of foreign technology and accelerate industrial appreciation, in order to promote the development of foreign trade. Ma Jizhuang [7456 4764 1104], Taiwan's representative at the Association of East Asian relations in Japan, has put forth an "Action Plan For Expanding Trade With Japan," proposing to "bring into play the combined strength of government and private sector," establish a "Taiwan Trade Center" in Japan, actively introduce Japanese technology, increase investment in Japan, and so on, in order to break through the "bottleneck" in Taiwan-Japan trade. And with respect to Europe, Taiwan has launched an all-out offensive on the nations of Western, Northern, and Eastern Europe in the areas of imports, exports, and investment. However, Taiwan is still restricted by many external factors. Of these, the main ones are as follows:

- The new U.S. omnibus trade bill will impose greater trade barriers on Taiwan. Based on the relevant provisions, the U.S. would not only demand further market opening by Taiwan and impose further trade restrictions on Taiwan, but would also force a further appreciation of the New Taiwan Dollar, in view of Taiwan's continuing trade surplus with the U.S. The continuing appreciation of the New Taiwan Dollar would have a direct adverse effect on the decentralized market.
- The establishment of a unified European market will pose an obstacle to Taiwan's plan of advancing on the European market. According to the "Single European Act" passed in July of this year, the European Community (EC) will establish a unified European market at the end of 1992, and at that time will adjust its foreign policy, i.e. adopt protective measures for the European market as a whole and impose quantitative import restrictions, in order to protect relatively weak domestic industries. Clearly, it will not be easy for Taiwan to completely open to European market within five years.
- It will be hard for the degree of opening and capacity of the newly opened markets of Japan and Western Europe to fill the gap left by the shrinking production of the U.S. market. This is primarily because the

degree of opening and capacity of the Japanese and Western European markets are limited, and Taiwan, by relying on its present economic strength and industrial competitiveness, can achieve only limited results in opening up these two markets. In view of this, I believe that one fundamental way out for Taiwan lies in taking more vigorous steps to adjust its mainland policy, at the same time that it adjusts its trade policy, and, through strengthening economic and trade relations between the two shores, improve Taiwan's domestic and foreign economic and trade situation. The economies and trade of the two shores complement each other in many respects, and both sides can import cooperation in many areas and at many levels.

Even if Taiwan's authorities can achieve the shift they are attempting from relying solely on the U.S. to laying stress on Japan and Europe, it can result only in new friction, and sooner or later it will run into a dead end. However, it is still possible to combine the mainland's markets, resources, and manpower with Taiwan's capital, technology, and management experience, and establish a circular economic mechanism between the two shores in production, supply, and marketing, and at the same time bring into play the advantage of joint production and marketing in advancing on the international market, and in this way obtain mutual benefits. This would also increase somewhat the assurance that Taiwan will realize the plan of "decentralizing the market" and establishing an import-export-coordinated foreign trade mechanism.

#### **LIAOWANG Views Problems Confronting Economy**

40060069 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 40, 3 Oct 88 pp 24-25

[Article by Wu Nianlu 0702 1819 7627 and Zhang Ying 1728 4481: "Difficulties Faced by Taiwan's Economy and Their Solution"]

[Text] The growth achieved by Taiwan in its export-oriented economy during the last 30-odd years has attracted the attention of the whole world. During the period from 1952 to 1981 the average annual economic growth rate was 8.7 percent. Favorable balance of trade reached \$19 billion, the value of export trade accounted for 99.7 percent of the GNP, and foreign exchange reserves exceeded \$70 billion, ranking Taiwan third in the world.

However, in the last few years, Taiwan's economy has manifested a consistent downward tendency, which revealed an inherent danger in its economic development. In the first half of this year, Taiwan's economic growth did not reach the intended level of 8 percent. After the first five months, the favorable balance of trade was \$3.1 billion, considerably lower than the \$7.3 billion

at the same time last year. Exports to the United States accounted for 39 percent of the total exports, down from 45 percent at the same time last year.

#### **Deterioration of the Investment Climate on the Island Discourages Investments**

Looking at the internal economic factors we see that costs of wages have been going up continuously during the last few years. From 1980 to 1985, productivity in Taiwan's manufacturing industries has on the average gone up only 5.6 percent per year, much less than the 8 percent during the 1960's, but wages have risen, not only by somewhat below 8 percent as in the past, but by 14.4 percent, which caused the wage factor in the costs of the manufacturing industries to go up 8.3 percent every year for the last five years.

Next, investments on the island have become sluggish, the rate of fixed asset formation from 1964 to 1973 was 16.8 percent, from 1974 to 1983 it was 8.2 percent, and from 1984 to 1986 only around 2 percent. The ratio of investments within the gross output value also went down from 34.2 percent in 1980 to 18.8 percent in 1987. The main reasons are Taiwan's huge favorable balances in recurrent items caused a "squeezing out of investment," so that commercial banks would reduce their loans to enterprises; foreign exchange controls had the domestic interest rates on the island deviate from the level of international interest rates, which made Taiwan unattractive for foreign investors; the prescribed demand of commercial banks for 100 percent collateral security left medium and small enterprises with nowhere to borrow money from or made loans too expensive for them; the irrational taxation system and an overelaborate list of taxable items stifled investment demand. Besides, labor disputes and disputes over environmental protection also added considerably to the deterioration of the investment climate on the island, and dampened investment interests among manufacturers. Up to the end of March this year, ten foreign firms ceased business operations and several other foreign firms are now planning to move away.

In the last few years, due to the continued appreciation of the Taiwan currency, there was rampant speculation in foreign exchange. Money issued by the "Central Bank" flowed in an incessant stream into the pockets of the few most influential manufacturers or into the hands of speculators. Up to the beginning of this year, losses on exchange suffered by the "Central Bank" of Taiwan amounted to almost NT\$400 billion, which is more than the entire tax revenue of the island. Under these influences, the ratio of the government's tax revenue to the GNP went down from 18.7 percent in 1982 to 14.2 percent in 1987, which is bound to have an ill effect on public constructions and on any improvement of the investment climate. At the same time, due to the growing disparity between rich and poor on the island, popular demonstrations have increased, and this too casts a shadow on the investment climate.

### New Challenges for Taiwan's Economy

In recent years, Taiwan's favorable trade balance with the United States and the unfavorable balance of the United States in its foreign trade relations have both continuously increased, and, as a result, trade protectionism is again raising its head in the United States. From 1986 on, the United States has been exercising pressure on Taiwan to raise the exchange rate of the Taiwan currency in relation to the U.S. dollar, demanding reduction in Taiwan's customs duty rates, opening its domestic market and increasing imports of American goods, and also demanding that American insurance firms, transport companies, and service companies may invest and operate in Taiwan. Under this continuous pressure, the authorities on Taiwan were compelled to appreciate the Taiwan currency by about 40 percent in relation to the U.S. dollar, to eliminate customs duty on 3,500 products, accounting for 8.1 percent of all of Taiwan's dutiable items, to allow the importation of American cigarettes, alcoholic beverages, and agricultural products, and to agree to many additional concessions. The increase in the value of the Taiwan currency in relation to the U.S. dollar has greatly reduced the competitiveness of Taiwan products in the international market, and the importation of large quantities of cheap products are felt as a serious blow by some of the domestic manufacturers.

At the same time, Taiwan's exports to the United States are meeting a new challenge. The Reagan government proclaimed on 29 January of this year that the preferential duty exemptions for Asia's "four small dragons"—Taiwan being one of them—will be abolished, and that a 5 percent duty will be levied on their imports. This will further deteriorate Taiwan's position in exporting to the United States.

Under pressure from U.S. trade protectionism, Hong Kong steeply increased its trade volume last year with Mainland China from \$12.7 billion to over \$18 billion; exports alone increased 54.6 percent, and Hong Kong's direct investments have for the last few years been the largest capital imports into Mainland China. Singapore increased its exports to Mainland China by 20.2 percent in 11 months of last year. This intensified scramble for the mainland market and for its raw materials by three of the "four small dragons" put huge pressure on Taiwan's foreign economic relations and trade. With today's great difficulties in opening up foreign markets, Taiwan, for political reasons, allows itself to merely look on with folded hands, which may cost it many times the effort to catch up at a later date, and the opportunity to do so may not ever occur again.

Then there is also Japan. Japan has become the largest investor and creditor country of the world and is now taking advantage of its geographical proximity to Mainland China and the inequality of technological developments, in an attempt to establish with Mainland China an economic cooperation with a division of labor with

regard to the different levels of development in the two countries. In 1986, Japan's investments in Mainland China were just over \$200 million, in 1987 this steeply rose to over \$1.22 billion. The total value of bilateral trade rose from below \$10 billion in 1983 to almost \$16 billion in 1987. In the new rivalry for supremacy in the Pacific zone, there is great danger that Taiwan will be pushed aside.

### Fundamental Solution for Taiwan's Economy: Focus on Mainland China

Taiwan's authorities have in recent years indeed adopted a policy of some economic liberalizations, for instance, relaxing foreign exchange controls, changing its conservative financial policy, increasing public investment expenditure, allowing indirect importation of mainland raw and semiprocessed materials, etc. Although these measures did stimulate Taiwan's economic growth, they were of a rather limited effect. For instance, the increase in public investment expenditure further aggravated, contrary to intentions, the "squeezing out of investment," and banks would use their capital for increased purchases of government bonds and would further restrict loans to private enterprises. Foreign exchange control still maintained certain quantitative restrictions as to inward or outward movement of capital; and particularly in the matter of importation of mainland raw and semiprocessed materials, they are allowed in only through indirect channels, which inevitably increases import costs and allows middlemen to make profits. Taiwan's authorities still show no inclination to relax restrictions on direct trade with the mainland or on direct investments in Mainland China, to the ever growing disappointment of many Taiwanese businessmen.

In the past, Taiwan has always unilaterally emphasized exportation of its products and has never shown any psychological readiness to invest abroad. The mentality of protecting the domestic market of the island is still very strong. If Taiwan wants to adapt to the world's economic trend of "internationalization" and "liberalization," and accelerate the economic shift in trade patterns, it has to abolish more trade and investment barriers, especially the political obstacle to trade with Mainland China and investments in Mainland China, it will have to flexibly use its foreign exchange resources, in order to, domestically, accelerate buildup of its public infrastructure, and, in foreign trade relations, expand its involvement in the development of oil, mineral, and other important industrial raw material resources overseas, especially in Mainland China. The effects this could have are: 1. It could safeguard the future sources of supply and create favorable conditions for future economic growth; 2. It would find an objective for the huge amounts of floating capital; 3. The cheap labor on the mainland could be utilized to earn large profits; 4. Suitable industries could be moved out, which would help in the upgrading of the island's industries; 5. It would be beneficial for the unification of the motherland and show regard for the people's sentimental attachment to their native places.

Besides, a more effective opening up of the mainland market would be a step of great importance. Taiwan's imports and exports are now inordinately concentrating on the United States and Japan. In the wake of growing trade protectionism in the United States, a wider spread of its import and export markets has become a matter of urgency for Taiwan. As a consequence, the markets of Europe and of Mainland China must become a major objective for Taiwan's trade expansion.

In actual fact, even though Taiwan's authorities still practice high pressure politics, it is due to the lure of Mainland China's policy of opening to the outside world and its policy of favorable treatment of investments by Taiwan compatriots, that the "Mainland fever" on Taiwan is constantly growing and not at all declining. Last

year already, trade between the two sides of the Taiwan Strait exceeded \$1.5 billion, and it has been predicted that it will exceed \$2 billion this year. To be on the spot to obtain raw materials and gain markets, some Taiwan firms have invested in Mainland China and established factories there under the name of Hong Kong or United States businessmen. In the first four months of this year, 15 Taiwan firms invested in Xiamen; their total investments reached \$28 million. For these reasons, Taiwan's authorities should yield to the desire of the people and at an early date adopt a sensible policy, which would make it legal to trade directly with Mainland China and to make direct investments in Mainland China. This would be beneficial for the future economic growth and prosperity on both sides of the Taiwan Strait.

**Businessmen's First Visit to Soviet Union**  
40060101 Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER]  
in Chinese No 43, 31 Oct 88 p 33

[Summary] A trade delegation led by Lin Tzu-ching, chairman of Importers and Exporters Association of Taiwan, went to the Soviet Union in October 1988 for a 15-day visit. It was the first nongovernmental contact between the two countries in 40 years. Some results of the visit:

1. Establishment of Friendly Relation with the Soviet Chamber of Commerce. Taiwan will promote the export of goods to the USSR by participating in various trade fairs in the Soviet Union.

2. A Better Understanding of the Soviet Market. Developing trade between the two countries is mutually beneficial. Taiwan may export clothing, shoes, computers, fabric, electronic products, and auto parts to the Soviet Union and import paper pulp, iron and steel, pig iron, copper, aluminium, timber, leather, raw cotton, and high-grade medical apparatus from it.

3. Establishment of Trade and Information Exchange Channels. The main reason for Taiwan's new liaison with the Soviet Union is to reduce its dependency on the United States and Japan as trading partners. Taiwan's favorable trade balance with the United States reached \$16 billion last year, representing more than 40 percent of Asia's "four little dragons" trade surplus with the United States. Taiwan is also importing too heavily from Japan. Last year its trade deficit with Japan amounted to \$3.61 billion. To correct this situation, Taiwan is seeking to expand its foreign markets. Having succeeded in developing some trade with China, Taiwan is also exploring the East European and the Soviet markets. The value of bilateral trade between Taiwan and these countries amounted to 284 million from January to August this year, more than doubling the amount for the same period in 1987. Trade with the Soviet Union amounted to \$13 million.

The low-priced agricultural and industrial raw materials from the Soviet Union will enable Taiwan to make its finished products more competitive in the international market. Moreover, Japan, South Korea, Singapore, and Hong Kong have established some economic relation with the Soviet Union. Taiwan does not want to be left out. Thus, it is willing to accept the political risk in exploring the possibility of establishing some economic and trade relations with the Soviet Union. However, in the near future there may not be any more breakthrough in trade between Taiwan and the Soviet Union for the following reasons:

1. The Soviet Union lacks foreign exchange reserves; it has a huge foreign debt. Thus, it does not have the resources to import large amount of goods from Taiwan.

2. The trade patterns between the two countries are different. Most of Taiwan's trade companies are small- and medium-sized enterprises, making it difficult for them to adapt to the Soviet barter trade practices.

3. Taiwan's manufacturers are not familiar with political, social, and commercial conditions in the Soviet Union. The complicated and cumbersome Soviet trade organizations will make it very difficult for Taiwan's businessmen to hold trade talks with them.

4. Taiwan faces strong competition from Japan, South Korea, Western Europe and the United States which have well-established trade relations with the Soviet Union.

5. In the near term, it will be difficult for Taiwan to engage the Soviet Union in direct trade. Instead, the two sides will hold indirect trade with each other, thus limiting the development of economic and trade relations between them.

**Recent Changes in Balance of Payments Discussed**

40060039 Taipei LIEN-HO PAO in Chinese  
11 Sep 88 p 2

[Editorial: "Changes in Our International Balance of Payments and Their Policy Significance"]

[Text] Statistics issued the other day by the Central Bank of China for the second quarter show that, while the ROC's international balance of payments remains in the black, our trade surplus has greatly diminished, totaling approximately \$3 billion, equal to only 15 percent of last year's total. This indicates that great changes have occurred in the ROC's international balance of payments. And the economic and financial effects of these changes merit close attention.

The biggest change in the ROC's balance of payments during the first half of the year occurred in the area of capital accounts. Both long-term overseas investment and short-term capital backflows posted marked gains, developments that are closely related to conditions in our domestic economy and banking. As for long-term overseas investment, besides the fact that investment in overseas production continues to grow, which development stems from changes in domestic wages, markets and environmental degradation, the rise in investment in foreign securities, which resulted from the relaxation of foreign-exchange controls a year ago, cannot be discounted. As for short-term capital backflows, the rapid surge of the New Taiwan [NT] dollar against the U.S. currency over the past two years has attracted much hot money, which funds attempt to profit from differences in exchange rates, into our country, but since the beginning of this year, the exchange rate for the NT dollar has stabilized, so short-term capital backflows have returned to normal levels. Recent statistics suggest that major changes in the important factors affecting the ROC's

international balance of payment capital account are unlikely to occur and thus that our surplus will continue to plummet, due to net capital outflows, for a while, which development will bring our international balance of payments back to normal. Nevertheless, this trend, as it unfolds, will affect domestic economic and financial activity in a way that cannot be overlooked.

The most immediate, short-term effect will be on domestic capital markets. The flood of hot money and the ballooning of our foreign exchange reserves have caused domestic capital markets to relax and even led to excess liquidity, which developments have created inflationary expectations. Logically, backflows of hot money can give rise to countervailing tendencies, to a money crunch. Nevertheless, the government's program of buying up reserve land for public facilities, which program involves large infusions of funds into capital markets, has created uncertainty in domestic capital markets. Generally speaking, the methods of financing and the length of the program are the key factors here, for most of the government's funds will be raised through bond sales, the program will be extended in time, but few funds will be injected into capital markets, so it is very likely that a monetary crunch will occur, which will make a rise in interest rates inevitable, a situation that is also related to trends in foreign currency exchange rates.

Changes in international balance of payments naturally affect moves in foreign exchange rates. Due to the great surplus in the ROC's international balance of payments and to the continued rise in that balance over the past 2-3 years, the ROC's currency has been subjected to great upward pressure. Although our trade surplus has declined, the fact that it remains substantial means that the NT dollar, at best, probably will remain where it is now and that it will not depreciate. Most notable is the fact that tight money domestically will cause interest rates to rise, which in combination with reductions in short-term backflows of capital will cause the NT dollar to continue to appreciate against the U.S. dollar. Indeed,

should backflows cease and continued foreign trade surpluses cause our balance of payments to balloon again, pressure on the NT dollar to appreciate against the U.S. currency will mount. Thus the stabilization of the NT dollar is only a short-term phenomenon, long-term appreciation pressure persists, and this trend is related to the long-term trade effects that are reflected in the ROC's current balance of payments.

Our growing long-term overseas investment affects the ROC's economic growth by influencing our foreign trade. As overseas investment is made, export of machinery occurs, thus stimulating export growth. But as overseas factories are set up, their long-term effects become paramount. As everyone knows, long-term investment effected by ROC companies in fact amounts to a shift abroad of labor-intensive export processing. Once the overseas production units of these companies go into production, they will produce substitutes for our exports and thus will compete with and replace our goods on international markets. Therefore, our overseas production units must be supplied with our own, locally produced essential raw materials and components if we are to continue expanding our exports; otherwise our exports will slow. Clearly, failure to upgrade domestic production in line with the increase in our overseas investment will, over the long run, adversely affect our exports and thus will impede our economic growth and reduce upward pressure on our currency. Conversely, upgrading of domestic production spurred by overseas investment will promote our economic growth, while strengthening upward pressure on our currency.

In sum, the recent, rapid decline in the ROC's international balance of payments, which is due to the great changes in our international capital accounts, is but a transitory phenomenon, and the long- and short-term economic effects of these developments cannot be overlooked. Authorities in charge of financial and economic affairs must adopt appropriate policies in line with these developments so that the ROC's economy can continue to grow.

### Foreign Trade in 1990s Analyzed

40060019 Guangzhou GANGAO JINGJI in Chinese  
No 8, 15 Aug 88 pp 10-12

[Article by Li Wu 6849 2007, General Affairs Office, Guangdong Provincial Price Bureau: "Outlook and Strategy: Hong Kong's Foreign Trade in the 1990s"—first paragraph is source-supplied abstract]

[Text] *Abstract: In recent years, many countries and regions have successfully copied Hong Kong's example of pursuing lighter product lines and thus, in terms of growth rates and cost competitiveness, threaten Hong Kong's future development. Therefore, to maintain the current growth rate for its exports, Hong Kong must not only strive to improve its productive technology and product design but also revise its marketing strategy.*

## I

Despite the dark shadows cast on international trade by the United States' low dollar policy since the September 1985 meeting of the Group of Five financial ministers, despite the growing friction between the leading trading nations of the world arising from growing protectionism, and despite the alarm felt by many of the world's biggest economies as a result of the "stock market crash" of October 1987, world trade in 1987 overcame all obstacles and continued to advance along its original path. According to the figures recently issued by the GATT organization, world export trade set a new record of \$2.45 trillion in 1987 (for specific figures, see the table appended at the end of this article), for an increase of 15.5 percent over the previous year. This performance was indeed gratifying to a world that was racked by fear.

Many nations and regions of the Asian-Pacific region chalked up excellent performances in 1987, with Singapore, Taiwan, South Korea, and Hong Kong posting increases in their two-way trade values of more than 20 percent. Of these countries and regions, Hong Kong reported \$240 billion in exports (including reexports), accounting for 2 percent of total world export trade, and \$49 billion in imports, or 1.9 percent of the global total. Indeed, Hong Kong has performed exceedingly well in its two-way trade over the past 10 years. From 1978 to 1987, its imports, in value terms, rose at an average annual rate of 23.3 percent, its domestic exports climbed at an annual rate of 19.4 percent, and its reexports rose by 32 percent. The old economic powers cannot hold a candle to these rapid trade growth rates.

## II

As many experts have noted, Hong Kong's ability to post higher growth rates in its two-way trade than other countries and nations of the Asian-Pacific region is due in large part to the fact that the port has benefited from the support of the Chinese hinterland. Since 1982, China has replaced Japan as the leading supplier of imports to Hong Kong, and the value of China's exports to the port

have risen from HK \$1.39 billion in 1982 to HK \$45.45 billion in 1987 and have climbed 14-fold since 1985. China has served as the leading supplier of imports to the port for 6 straight years and is expected to continue to do so for a long time to come. Meanwhile, China's hinterland has become an increasingly important market for Hong Kong's exports. In just seven short years, China leaped from 59th place among Hong Kong's export markets (in 1977) to second, following only the United States, in 1984, and by 1987 Hong Kong's exports to China had reached HK \$27.87 billion. And since 1980, China has been the leading recipient of Hong Kong's reexports, which have grown by more than 13-fold since, from HK \$4.6 billion in 1980 to HK \$60 billion in 1987.

Despite the fact that the Chinese hinterland has become a major contributor to the rapid growth of Hong Kong's two-way trade, the United States, due to historical reasons and to the gap between the level of the American economy and China's, remains the leading market for Hong Kong's exports, and Hong Kong's exports to the United States have risen at an average annual clip of 19.2 percent over the last 10 years, reaching HK \$72.82 billion in 1987, compared to the 1978 figure of HK \$15.13 billion.

In October 1983, the Hong Kong government pegged the exchange rate for the Hong Kong dollar to HK \$7.8 to \$1. The purpose of this move was to stabilize the port's currency and economy, but the actual effect was to enhance the competitiveness of Hong Kong-made products, since the port's currency depreciated as the U.S. dollar did. And results over the last 4-plus years have shown that the Hong Kong government's objectives have been achieved. Unfortunately, however, the fixed rate of exchange has not helped the port increase its share of the American market, which share has fluctuated between 16 and 22 percent since 1982, whereas the Japanese share rose from 16 to 22 percent during the same period (through 1986). Hong Kong has also failed to break into another market that has tremendous potential, Japan's. Analysis of relevant data indicates that the port has made much less progress in winning Japanese market share than South Korea.

If the future growth of Hong Kong's two-way trade is to depend on market and product diversification, the port, confronting international trade in the 1990s—which are almost upon us, will have to make unrelenting efforts in these areas.

## III

International trade over the next 10 years is sure to be full of challenges and tests for Hong Kong. Analysts are "cautiously optimistic" about its chances for success, a view that seems acceptable.

Hong Kong already has trade relations with 135 nations and regions in the world and so, in a strict sense, will find it very difficult to discover "new markets." The port's

government has wisely recognized this fact and thus, in terms of strategy, is striving to tap the potential of existing markets, especially those with the greatest potential, the American, the European, the Japanese, the Chinese, and the like. On the one hand, the port is trying to increase the value of its exports to the United States, the European Common Market, and other markets in which it already enjoys a high volume of exports by improving the quality of its products, and by employing a variety of forms of cooperation to develop markets in the Chinese hinterland. On the other hand, the port is taking advantage of the opportunities provided by the growth of demand in the Japanese market and by the desire of Taiwan and South Korea to break into the Chinese market. It is generally believed that the Japanese market is the "toughest nut to crack" in the Asian-Pacific region, but the great appreciation of the yen has given Hong Kong a competitive price advantage in its trade with Japan. Taiwan and South Korea are trying to use a variety of methods to break into the vast consumer market of the Chinese hinterland, and Hong Kong is the best intermediary, buffer, and bridge for these efforts. For the foreseeable future, Hong Kong's entrepot trade will continue to grow rapidly. As for the prospects for economic and trade relations between the port and the Chinese hinterland, the latter has natural resources that the port lacks as well as abundant labor, while the port has capital, technology, and managerial experience, which the hinterland needs. Thus the two economies complement each other well. The opening of the Chinese market will be a major determinant of the growth of Hong Kong's two-way trade.

Relevant data show that Hong Kong's exports have not changed very much in terms of type since the 1960s. Whatever efforts the port has made to improve and upgrade its exports have been limited primarily to changes in styles and models. But after nearly 20 years of development and change in the port's international economic and trade relations and in its domestic economy, its "traditional" exports now face fierce competition on international markets, and it can no longer maintain large market share with the image as a cheap producer. Hong Kong's basic hope is to diversify its exports. It must strive to change and innovate, improve product design, upgrade its product lines and, while working to consolidate its existing markets, introduce new and original products, thereby increasing the value of its exports and avoiding protectionist restrictions. In addition, the port must also revise its marketing strategies and transform its current, passive practice of waiting for buyers to come to it to place their orders to an aggressive strategy of striking out and seizing markets, of "knocking on doors" to sell products, of going to buyers' markets to advertise its goods, and of convincing buyers

that its goods are no longer like its old ones, which changed only superficially, but completely different, high quality goods. Only thus can Hong Kong expand its markets and avoid getting clobbered in international competition.

Without a doubt, Hong Kong's free trade policy has had a direct, positive effect on its two-way trade and thus has contributed to the rapid growth of its overall economy. Nevertheless, in the final analysis, Hong Kong is but a tiny plot of land, its influence is limited, and it still retains certain colonial characteristics, and thus it finds itself at a disadvantage in bilateral trade talks, as illustrated by the difficulties it has encountered in its textile negotiations with the United States. Thus some people have argued that the port should actively participate in international economic and trade organizations and draw on the "strength of numbers" to stand up to economic giants and defend its own interests. And, in fact, Hong Kong has already benefited from and continues to follow this strategy. For example, its status in international trade was enhanced when it joined GATT. The "Uruguay Round" of GATT, which began in 1986, is attempting to advance free trade by establishing a more open multilateral trade system and by getting GATT members to cooperate in opposing and curbing protectionism, which is increasing every day, and hopes to incorporate service industry, which accounts for more than 60 percent of global GDP, into multilateral trade agreements. If successful, the "Uruguay Round" will tighten ties between GATT members, broaden certain world markets, reduce tariffs, and possibly eliminate some non-tariff trade barriers. Hong Kong is an active participant in these talks, which are expected to continue until 1990, and most notably, is working with 20 textile exporters to achieve common goals in the negotiations on textiles and ready-to-wear clothing, in which products Hong Kong enjoys great advantages. Hong Kong also possesses advantages in service industry, being a "financial center," a "shipping center," a "tourism center," and an "information center," so it will obtain even more opportunities to expand external cooperation and to promote the development of its domestic economy if this industry is incorporated into GATT agreements.

No matter whether or not the prediction that "the economic center of the world will shift southward" comes true or whether this prediction, if realized, creates exhilarating opportunities for the Asian-Pacific region, the 1990s will be full of tests and challenges for Hong Kong's international trade. All quarters in Hong Kong must strive to positively and aggressively respond to these challenges and tests. The port can face the future confidently so long as it continues its current efforts.



Table. Statistics for Leading Markets in the World in 1987 (Unit: \$1 billion)

| Market              | Value of<br>Exports (FOB) | Percentage of<br>World Total | Market              | Value of<br>Imports (CIF) | Percentage of<br>World Total |
|---------------------|---------------------------|------------------------------|---------------------|---------------------------|------------------------------|
| World               | 2,459                     | 100.0                        | World               | 2,550                     | 100.0                        |
| West Germany        | 294                       | 12.0                         | United States       | 424                       | 16.6                         |
| United States       | 253                       | 10.3                         | West Germany        | 228                       | 8.9                          |
| Japan               | 229                       | 9.3                          | France              | 159                       | 6.2                          |
| France              | 149                       | 6.1                          | England             | 156                       | 6.1                          |
| England             | 133                       | 5.4                          | Japan               | 149                       | 5.8                          |
| Italy               | 115                       | 4.7                          | Italy               | 123                       | 4.8                          |
| Soviet Union        | 108                       | 4.4                          | Soviet Union        | 95(FOB)                   | 3.7                          |
| Canada              | 94                        | 3.8                          | Netherlands         | 90                        | 3.5                          |
| Netherlands         | 93                        | 3.8                          | Canada              | 89(FOB)                   | 3.5                          |
| Belgium, Luxembourg | 83                        | 3.4                          | Belgium, Luxembourg | 85                        | 3.3                          |
| Taiwan              | 54                        | 2.2                          | Switzerland         | 50                        | 2.0                          |
| Hong Kong *         | 49                        | 2.0                          | Spain               | 49                        | 1.9                          |
| South Korea         | 47                        | 1.9                          | Hong Kong *         | 49                        | 1.9                          |
| Switzerland         | 46                        | 1.9                          | Chinese Mainland    | 44                        | 1.7                          |
| Sweden              | 45                        | 1.8                          | Sweden              | 42                        | 1.7                          |
| Chinese Mainland    | 40                        | 1.6                          | South Korea         | 41                        | 1.6                          |
| Spain               | 34                        | 1.4                          | Taiwan              | 35                        | 1.4                          |
| Singapore *         | 29                        | 1.2                          | Austria             | 32                        | 1.3                          |
| Austria             | 27                        | 1.1                          | Singapore *         | 32                        | 1.3                          |
| Brazil              | 26                        | 1.1                          | Australia           | 27                        | 1.1                          |
| Total               | 1,948                     | 79.5                         | Total               | 1,999                     | 78.4                         |

\* Including figures for actual reexports and for imports that are reexported.